BANKS, MERGERS, AND THE AFFECTED COMMUNITIES

FIELD HEARING

BEFORE THE

COMMITTEE ON FINANCIAL SERVICES

U.S. HOUSE OF REPRESENTATIVES

ONE HUNDRED EIGHTH CONGRESS

SECOND SESSION

DECEMBER 14, 2004

Printed for the use of the Committee on Financial Services

Serial No. 108–117

U.S. GOVERNMENT PRINTING OFFICE

20–952 PDF WASHINGTON : 2004

For sale by the Superintendent of Documents, U.S. Government Printing Office
Internet: bookstore.gpo.gov Phone: toll free (866) 512–1800; DC area (202) 512–1800
Fax: (202) 512–2250 Mail: Stop SSOP, Washington, DC 20402–0001

HOUSE COMMITTEE ON FINANCIAL SERVICES

MICHAEL G. OXLEY, Ohio, *Chairman*

JAMES A. LEACH, Iowa
RICHARD H. BAKER, Louisiana
SPENCER BACHUS, Alabama
MICHAEL N. CASTLE, Delaware
PETER T. KING, New York
EDWARD R. ROYCE, California
FRANK D. LUCAS, Oklahoma
ROBERT W. NEY, Ohio
SUE W. KELLY, New York, *Vice Chair*
RON PAUL, Texas
PAUL E. GILLMOR, Ohio
JIM RYUN, Kansas
STEVEN C. LATOURETTE, Ohio
DONALD A. MANZULLO, Illinois
WALTER B. JONES, JR., North Carolina
DOUG OSE, California
JUDY BIGGERT, Illinois
MARK GREEN, Wisconsin
PATRICK J. TOOMEY, Pennsylvania
CHRISTOPHER SHAYS, Connecticut
JOHN B. SHADEGG, Arizona
VITO FOSSELLA, New York
GARY G. MILLER, California
MELISSA A. HART, Pennsylvania
SHELLEY MOORE CAPITO, West Virginia
PATRICK J. TIBERI, Ohio
MARK R. KENNEDY, Minnesota
TOM FEENEY, Florida
JEB HENSARLING, Texas
SCOTT GARRETT, New Jersey
TIM MURPHY, Pennsylvania
GINNY BROWN-WAITE, Florida
J. GRESHAM BARRETT, South Carolina
KATHERINE HARRIS, Florida
RICK RENZI, Arizona
JIM GERLACH, Pennsylvania

BARNEY FRANK, Massachusetts
PAUL E. KANJORSKI, Pennsylvania
MAXINE WATERS, California
CAROLYN B. MALONEY, New York
LUIS V. GUTIÉRREZ, Illinois
NYDIA M. VELÁZQUEZ, New York
MELVIN L. WATT, North Carolina
GARY L. ACKERMAN, New York
DARLENE HOOLEY, Oregon
JULIA CARSON, Indiana
BRAD SHERMAN, California
GREGORY W. MEEKS, New York
BARBARA LEE, California
JAY INSLEE, Washington
DENNIS MOORE, Kansas
MICHAEL E. CAPUANO, Massachusetts
HAROLD E. FORD, JR., Tennessee
RUBÉN HINOJOSA, Texas
KEN LUCAS, Kentucky
JOSEPH CROWLEY, New York
WM. LACY CLAY, Missouri
STEVE ISRAEL, New York
MIKE ROSS, Arkansas
CAROLYN McCARTHY, New York
JOE BACA, California
JIM MATHESON, Utah
STEPHEN F. LYNCH, Massachusetts
BRAD MILLER, North Carolina
RAHM EMANUEL, Illinois
DAVID SCOTT, Georgia
ARTUR DAVIS, Alabama
CHRIS BELL, Texas

BERNARD SANDERS, Vermont

ROBERT U. FOSTER, III, *Staff Director*

CONTENTS

BANKS, MERGERS, AND THE AFFECTED COMMUNITIES

Tuesday, December 14, 2004

U.S. HOUSE OF REPRESENTATIVES,
COMMITTEE ON FINANCIAL SERVICES
Washington, D.C.

The committee met, pursuant to call, at 10:12 a.m., at the Federal Reserve Bank of Boston, 600 Atlantic Avenue, Boston, Massachusetts, Hon. Spencer Bachus [presiding.]

Present: Representatives Bachus, Murphy, Frank, Watt, Meeks, Lee, Capuano, Lynch. Also present was Representative Tierney.

Chairman BACHUS. Good morning. The Committee on Financial Services will come to order.

Today is a full Committee hearing requested by Mr. Barney Frank, Senior Ranking Member of the Committee, to examine the economic impact of large bank mergers, with particular focus on the two mergers we've had here in the Northeast. Gramm-Leach-Bliley have other factors contributed to me a large number of bank mergers we have seen recently.

Since the mid-'40s, there's been a decline of about 40 percent in the number of banking organizations; and the ten largest U.S. banking organizations, they've increased their deposit share or bank asset share from 20 percent to 46 percent by the end of last year. So there has been a tremendous consolidation in the industry.

In fact, three of our banks, Bank of America, who will have a witness testify today, along with JPMorgan Chase and Citibank, are actually bumping up against the 10 percent deposit limit of Riegle-Neal.

We're going to shorten our time for opening statements because we have three panels. Our first panel will be consumer advocates and public-interest advocates; our second panel will be representatives of the banks involved. We will have representatives from Bank of America and also from Sovereign Bank; and our third panel will have a state senator, state representative and a banking commissioner from the State of Massachusetts.

Because we do want to get right to our witnesses, we're going to constrict our opening statements. I'll submit my entire opening statement for the record.

I would note that Bank of America and Fleet Boston did announce that they were stepping up their CRA commitments over a ten-year period as a result of the merger, and I'm sure there will be testimony on that and how that's going.

[The following information can be found on page 333 in the appendix.]

Chairman BACHUS. With that, Mr. Frank?

Mr. FRANK. Thank you, Mr. Chairman. I want to express my very deep personal appreciation. We often say that, but on occasion we really mean it; and this is one of them.

To the chairman of the full Committee, Mike Oxley, and to my colleague, Spencer Bachus, it is a refutation of the notion that partisanship has totally seized control of Congress that the Republicans, who are in the majority, agreed to this important hearing.

I am deeply appreciative to Chairman Oxley and his staff for this, to my two colleagues, Spencer Bachus and Tim Murphy, who at some inconvenience to themselves, at a time when frankly our workload is not supposed to be the highest, agreed to come here.

I want to express my appreciation also to other of my colleagues who joined us from elsewhere: Congressman Watt from North Carolina, Congresswoman Lee from California, Congressman Meeks from New York, as well as my Massachusetts colleagues who have joined us.

This is a very important issue, both specifically and generally. Obviously the impact of the Bank of America purchase of Fleet is of great significance to Massachusetts, and indeed to the rest of New England; but this is also symptomatic of a national set of issues. And this is not a hearing only about Bank of America; we will be hearing from one witness who has had dealings with JPMorgan Chase, which was mentioned by the chairman. These are not personal issues; there are very significant public policy issues here.

I just want to add one thing. One of the concerns that I'm sometimes asked to address is, well, what business is it of you and other elected officials to dictate or put pressure on a private institution? How do you come to feel that you can tell a bank, well, you've hired too few people or you haven't done enough in this lending area.

The answer is, in part, that banks are a very important part of our free market system, and they perform an essential role. I think virtually every one of us on this panel has cooperated with the banks in things like allowing them to truncate checks, and we've tried to reform deposit insurance.

We are very much interested in a better functioning of the banking system in the interest of the economy as a whole, but let's also be clear: Banks have deposit insurance guaranteed by the federal government. They have access to the discount window in the Federal Reserve system. Banks are protected against competition by the restrictions on entry. In other words, banks are a very important part of our system, and they receive a great deal of protection and assistance from the government.

In return, Congress passed and the President signed the Community Reinvestment Act which imposes certain reciprocal restrictions; so when we discuss these things, it's in that context. It does not mean that we don't recognize that banks are essential to the functioning of our free market economy. It is that we recognize also that, given the advantages that we give banks so that they can perform that function, it is important that there be something in return.

I appreciate that, Mr. Chairman, and I thank you for holding this important hearing.

Chairman BACHUS. Thank you, Mr. Frank.
Chairman BACHUS. Mr. Watt?
Mr. WATT. Thank you, Mr. Chairman.

We actually agreed not to make opening statements in the interest of time to get some witnesses who have some time problems to not just sit here and listen to all of us, but I asked them to give me one minute to make two disclosures, just in the interest of full disclosure.

First of all, one of the institutions that's represented here is based in my Congressional district, and that's Bank of America. So I wanted to welcome them, although I don't have the right to be welcoming anybody to Boston; but at least so that everybody would know that the home base of Bank of America is actually physically located in my Congressional district.

The second disclosure is that Juan Cofield, one of the witnesses on the first panel, who's over the NAACP branches here in this area, and I were classmates at the University of North Carolina. We in fact, between me, Juan, and James, his brother, represented one-fourth of the African-Americans in a class of over two thousand students when we started undergraduate school; and when we finished, we probably represented about one-half of the people in that class, because through attrition, some of them had gone and done other things.

So we go back a long way, and I want to welcome him and thank him for being here personally. Thank you very much.

Chairman BACHUS. Thank you, Mr. Watt.

Chairman BACHUS. I'd also note for the record that Charlotte also is about the second largest bank in my home town.

Mr. FRANK. Mr. Chairman, one last thing while we're acknowledging home towns. I think we should note that we are in the district of my colleague, Mr. Lynch; so our home Congressman is also here.

Chairman BACHUS. You might want to introduce the other Members of the Massachusetts delegation.

Mr. FRANK. Yes. We're joined by our Congressman John Tierney, from north of here, who is not a Member of the Committee, and we particularly appreciate his taking the time to be here; Congressman Lynch, who is a Member of the Committee; and Congressman Capuano, whose district is about a block away.

Mr. CAPUANO. Across the street.

Mr. FRANK. Across the street. I'm delighted to have my colleagues here.

We have Congressman Meeks from New York; Congresswoman Lee from California, who also has a claim of former host, because the Bank of America name came from the Bank of America which was originally in the Bay Area. So Congresswoman Lee from Oakland has a piece of that claim.

Chairman BACHUS. We also have Mr. Murphy, who's from Pennsylvania; and Sovereign Bank is in your district.

Mr. MURPHY. Mellon.

Chairman BACHUS. Now that we've had those exciting opening statements, we'll turn to our first panelist, Ms. Maureen Flynn, deputy director of the Massachusetts Association of Community Development Corporations; Ms. Florence Hagins, director of Massa-

chusetts Affordable Housing Alliance; Mr. Cofield, who has already been introduced. Juan Cofield?

Mr. COFIELD. Right.

Chairman BACHUS. New England Area Conference of NAACP; Ms. Irene Baldwin, executive director of the Association for Neighborhood and Housing Development; and Mr. Mathew Thall, senior program director of Local Initiative Support Corporation.

So we welcome you all, and at this time we will start with Ms. Flynn and hear your opening statement. Then we will go to Ms. Hagins and down the line.

STATEMENT OF MAUREEN FLYNN, DEPUTY DIRECTOR, MASSACHUSETTS ASSOCIATION OF COMMUNITY DEVELOPMENT CORPORATIONS, INC.

Ms. FLYNN. Thank you, Chairman Bachus, Congressman Frank and Members of the Committee, especially the Massachusetts delegation, for being here today. We appreciate your holding a field hearing in Massachusetts on the recent mergers.

Before I start, I wanted to make clear that my testimony today includes the comments and the input of two other members of our statewide coalition on CRA issues, which is the Fair Housing Center of Greater Boston and the Lawyers' Committee for Civil Rights. They cannot testify today, but my comments include their comments.

I will address my comments in the order of the questions that were asked to us as a panel, and I have submitted written testimony; so this is a summary of what I've said in my written testimony.

First, regarding job loss: As a group that represents low- and moderate-income communities across Massachusetts, we are most disturbed by the job losses sustained by southeastern Massachusetts because of the most recent Sovereign acquisition of Seacoast Bank. The merger resulted in the elimination of 350 jobs in southeastern Massachusetts.

The recent Bank of America acquisition of Fleet Bank resulted in the loss of key bank positions and employees who were able to make a positive connection between Fleet Bank and the communities that they serve. In addition, Bank of America has effectively reduced its CRA staff, so that there is just one CRA officer now for two states, Massachusetts and Rhode Island.

Secondly, regarding the extent to which acquiring banks have entered into commitments during the merger process: On December 1, 2004, Sovereign Bank signed a new five-year community investment agreement. The details of that agreement are included in my written testimony.

The agreement, in essence, contains all of the provisions which the community coalition that worked with them on the agreement requested, most importantly, commitments to affordable housing, small business lending, a Massachusetts advisory council and goals on diversity in hiring and awarding contracts.

Could Sovereign do more to mitigate the effects of its acquisition of Seacoast Bank, especially for southeastern Massachusetts? Absolutely. Does the agreement contain a plan for mitigating the effects of job loss? No.

Our work is not finished on the merger, and neither is theirs. We intend to work with them through the framework of this agreement and through the advisory council so that Sovereign Bank becomes a true partner and leader in southeastern Massachusetts. The fact that we have an agreement with them and an advisory council makes that continuing work possible.

As for Bank of America, in November of 2003, just after Fleet Bank announced that they were accepting an acquisition proposal by Bank of America, our community coalition proposed a Massachusetts-specific community investment plan to the bank based on what we understood are the community credit needs of our state. This proposal contained almost identical categories as those contained in previous Sovereign agreements and Citizens Bank agreements.

In February, after several meetings and intense discussions with Fleet Bank and Bank of America officials, the bank agreed, in writing, to a written Massachusetts plan. In the first few months of this year, Bank of America agreed to make several commitments on areas contained in our proposal, which I have again outlined in my written testimony.

We very much appreciate Bank of America's commitments to date and think the commitments are a good first step in partnering with Massachusetts communities. However, more than one year after Bank of America announced their plan to acquire Fleet, there are four extremely important outstanding issues on which Bank of America has not yet agreed to make commitments or set goals: Small business lending goals by loan type and area, goals for diversity in hiring, goals for diversity in awarding contracts, and the establishment of a formal Massachusetts community bank advisory council.

Without these goals set, Bank of America's promise to us hasn't been met. Without these goals set, there can be no written community investment agreement or plan with Bank of America that adequately attempts to serve the credit needs of the citizens of Massachusetts.

The information that Bank of America released to us this past Friday regarding their Massachusetts business strategy is not a plan for addressing the credit needs of low- and moderate-income individuals in Massachusetts; and in fact, the words "low- and moderate-income" only appear once, in the last sentence of the last paragraph of the last page of the document.

The information gives us a general idea about how the bank will conduct its business. What we want to know is how they plan to meet the credit needs of low- and moderate- income individuals and communities based on the categories set out in the CRA regulations. It's that simple.

As we mentioned, we appreciate the commitments that the bank has made to Massachusetts so far. However, Sovereign Bank and Citizens have been able to meet the standard established by our state in terms of being parties to solid community investment agreements. We only ask that Bank of America meet that standard as well, or even, as their advertising campaign suggests, that they try to achieve a higher standard reflective of their preeminent ranking in the financial services industry.

Lastly, regarding whether current laws provide sufficient criteria for the review of the impact of bank mergers on communities, we feel that they do not, and they are inadequate to ensure communities' interests post-merger.

First, CRA regulations should include an assessment of how well banks have met the credit needs of communities of color.

Second, there are two inadequacies in the Bank Holding Company Act which require that in determining whether to approve an acquisition application, bank regulators must assess whether the merging banks have complied with the CRA law in meeting the credit needs of a community.

The assessment under the law requires that the regulators only look to the past record of the two merging banks on CRA issues, not how they are going to meet CRA in the future after they have merged.

Secondly, there is no requirement that the regulators compare the performance after the banks have merged on whether they have met the requirements under the law under CRA and the Bank Holding Company Act; and therefore, there's no incentive for banks to take into account any diminishing of services, investment or lending post-merger.

So again, we thank the Committee very much for allowing us to submit testimony on these very important issues and for your coming to Massachusetts to hear us on these issues.

Chairman BACHUS. Thank you.

[The prepared statement of Maureen Flynn can be found on page 288 in the appendix.]

Chairman BACHUS. Ms. Hagins?

STATEMENT OF FLORENCE HAGINS, ASSISTANT DIRECTOR, MASSACHUSETTS AFFORDABLE HOUSING ALLIANCE

Ms. HAGINS. Thank you for the opportunity to testify today, Chairman Bachus, Congressman Frank, and other Members of the Committee. We appreciate the willingness of the Committee to come to Boston for this field hearing. We particularly thank Congressman Frank for his strong support for the CRA and his successful efforts to encourage banks to make specific commitments to the community they serve.

My name is Florence Hagins, and I am the assistant director of the Massachusetts Affordable Housing Alliance. MAHA is a nonprofit organization that works to increase public and private sector investment in affordable housing and to break down the barriers facing first-time home buyers.

We have signed multi-year CRA agreements with most major banks in the state detailing commitments to the SoftSecond program, which is the state's most affordable mortgage project, and has helped over 7,700 low- and moderate-income home buyers buy their first home. As the leading anti-redlining program in Massachusetts, we have also worked closely with groups such as the Mass. Association of CDCs, Fair Housing Center of Greater Boston, and Lawyers' Committee for Civil Rights.

On January 13, 2004, Bank of America signed an agreement with MAHA for 3,000 SoftSecond loans in Massachusetts over the next ten years. In addition, Bank of America made public commit-

ments to other housing programs. They agreed to remain a member of the Federal Home Loan Bank of Boston. They agreed to remain fully invested in the Massachusetts Housing Investment Corporation.

Bank of America agreed to convert a portion of its loan commitment to the Massachusetts Housing Partnership to an $18 million grant; and Bank of America agreed to participate in the Massachusetts Basic Banking program by offering low-cost checking and savings accounts.

On housing, Bank of America has made the right commitments. Bank of America has a chance, as they enter this market, to be the lender of choice for low- and moderate-income residents in Massachusetts, but it will take an aggressive commitment to better serve these markets.

Bank of America needs to hire more loan originators from diverse backgrounds; increase its marketing in low- and moderate-income neighborhoods; and provide good and timely customer service throughout the mortgage process.

We have had discussions with Anne Finucane of Bank of America, and we are in agreement that staffing levels for loan originators need to be significantly increased in the Boston market. We appreciate the commitment that Bank of America has made to increase its staffing levels in the mortgage area.

Chairman BACHUS. Ms. Hagins, we're told that people in the back of the room can't hear; so I'm going to ask the panelists to pull the mike a little closer to you.

Mr. FRANK. Put it right in front of your mouth.

Ms. HAGINS.In addition, Bank of America senior management will need to emphasize the importance of increased production in the SoftSecond program.

In the first eleven months, we have seen mixed results under the Bank of America SoftSecond agreement. Bank of America has exceeded its commitment of 150 loans outside of the city of Boston by closing 165 mortgages, making them the number one lender in the program statewide.

In Boston, however, the numbers tell a far different story. Bank of America has closed 52 loans in the city of Boston against the commitment of 100 loans, making them only the third largest SoftSecond lender in the city of Boston.

MAHA has also reached agreement with Sovereign Bank prior to its merger with Seacoast for commitments to the SoftSecond loan program. Sovereign has committed to a total of 575 SoftSecond loans during the next three years.

In 2004, Sovereign's commitment is for 75 loans in Boston and 100 outside of Boston. Through November 2004, they have closed 144 loans throughout the state, which makes them the second largest SoftSecond lender in Massachusetts. During the merger process, Sovereign officials were also willing to make specific commitments to New Bedford and the south coast region of Massachusetts.

We offer the following comments on the adequacy of the CRA.

One weakness of CRA, or at least as it is enforced by federal regulators, is that banks are not compelled to enter into signed written agreements with community groups. Many choose instead to

make public commitments which do not include much in the way of detail.

Any other serious relationship between a bank and its customers, partners and vendors is typically in the form of a written agreement. CRA commitments should be no different.

CRA is a law that needs to be expanded to cover mortgage companies as well as banks. In Boston in 1990, banks controlled by CRA controlled 78 percent of the mortgage lending market. Last year, the bank market share percentage had slipped to 23 percent. Yet banks covered by CRA lend to lower-income and minority borrowers at a rate more than double that of largely non-CRA-covered mortgage companies.

We oppose the move by the Office of Thrift Supervision and the FDIC to raise the small-bank threshold from $250 million to $1 billion, allowing many banks to eliminate the investment and service components of the three-pronged CRA test.

We support expanding CRA to include disclosure of race information on small business loan data and to specifically include areas such as diversity in employment and procurement for minority- and women-owned business enterprises.

We thank you for the opportunity to testify today and we would be happy to answer any questions.

Chairman BACHUS. Thank you.

[The prepared statement of Florence Hagins can be found on page 307 in the appendix.]

Chairman BACHUS. Mr. Cofield?

STATEMENT OF JUAN M. COFIELD, PRESIDENT, NEW ENGLAND AREA CONFERENCE OF NAACP

Mr. COFIELD. Good morning. I'm Juan Cofield, president of the New England Area Conference of the NAACP. The acronym for the New England Area Conference is NEAC and you will hear me referring to NEAC.

NEAC is the coordinating and governing body for the branches of the NAACP in the states of Rhode Island, Massachusetts, New Hampshire, Maine and Vermont. I want to express my sincere appreciation to Chairman Bachus, Ranking Minority Member Congressman Frank, and the other Committee Members for conducting this hearing here in Boston today. This hearing, in and of itself, has already had an impact on the delivery of banking services in this community.

NEAC is part of a loose coalition of non-profit organizations called the Community Advisory Committee, the acronym being CAC, formed to advocate for people of color and low- and moderate-income people in pursuit of improved banking services.

In general, my testimony is supported by the CAC. More specifically, I wish to indicate that the general thrust of my testimony has the support of the Lawyers' Committee for Civil Rights Under Law of the Boston Bar Association and the Fair Housing Center of Greater Boston.

To put my testimony in context, I would like to provide for you the vision and mission of the NAACP. The vision of the NAACP is to ensure a society in which all individuals have equal rights and there is no racial hatred or racial discrimination. The mission of

the NAACP is to ensure the political, educational, social and economic equality of all persons and to eliminate racial hatred and racial discrimination.

NEAC and the CAC requested two commitments from Bank of America which relate to the bank's employment at all levels of people of color and women and the procurement of goods and services from businesses owned by people of color and women.

Statistical data will clearly show that the percentage of people of color and women employed by Bank of America at all levels, nationally and in Massachusetts, is not matched by these categories of citizens' percentage of the population. An even worse disparity is reflected regarding the percentage of goods and services purchased from people of color and women.

NEAC and the coalition have requested that Bank of America set a goal and develop a plan such that the bank's employment at all levels again of people of color reflect the percentage of people of color in the general population in the Commonwealth of Massachusetts. A similar request has been made regarding the bank's procurement of goods and services.

These disparities are certainly not unique to Massachusetts and Bank of America alone did not create the disparity in Massachusetts or in our great nation. It is a problem of our American society and economy.

However, Bank of America must be part of the solution. The lack of employment and business opportunities has contributed to economic destabilization in communities with a dominant population of people of color.

The Community Reinvestment Act begins by reciting Congress's three findings in passing the law. First, banks are required to serve the convenience and needs of the communities in which they are chartered to serve. Economic stabilization is a dire need in many communities of color. Adequate employment and business opportunities will greatly contribute to stabilizing these communities.

Since Bank of America in its normal course of business provides employment opportunities and opportunities for businesses to sell the bank goods and services, NEAC and the CAC maintain that the bank has an affirmative obligation under the CRA to provide these same opportunities on an equal basis to communities with dominant populations of people of color.

I aver that further evidence of Bank of America's affirmative obligation to provide employment and business opportunities is found in the investment test of the CRA regulations for large banks. The investment test evaluates the bank's community development investments. Of the four measures of a bank's investment, two are directly relevant: the bank's responsiveness to community development needs and the degree to which investments are not provided by other private investors.

Bank of America can present no reasonable argument that providing equal access to jobs and business opportunities in destabilized communities with a dominant population of people of color is not addressing a community need. Further, these investments are not being sufficiently provided by other private investors. NEAC and the coalition have sought a reasonable investment plan

of employment and business opportunities from the bank to address these stark community needs.

To this point, Bank of America has not presented NEAC and the coalition with such a plan. Up to Thursday morning, December 9, discussions with the bank had been quite disappointing, to say the least. But on Thursday morning, I had a lengthy discussion with two senior bank officials: Doug Woodruff, president of CD Banking, Bank of America, and William Fenton, senior vice-president of Bank of America here in Boston. I am more hopeful today, as a result of that conversation, than I was prior to last Thursday, December 9.

The bank's attitude has been that it is developing a national plan and that Massachusetts will fit within that plan. It is a one-size-fits-all approach. However, this approach, in my humble and lay opinion, is not what the CRA intended to require.

CRA is the acronym for Community Reinvestment Act and not the Country Reinvestment Act. Any plan developed by the bank should be specific and tailored to the needs of the communities which each of you, our most honorable Congressmen, represent if the bank is providing banking services in your district.

By contrast, I would like to point out what Bank of America's two largest competitors in Massachusetts are doing.

Sovereign Bank of New England and Citizens Bank Massachusetts have made a commitment and are developing plans for their respective banks' employment at all levels and procurement programs of goods and services, which reflect the diversity of the Commonwealth of Massachusetts.

These banks did not simply say, "Come in and let us show you what we plan to do." These commitments were the result of an openness of attitude, a willingness to provide the best service to the communities which they serve, and an extended period of negotiations.

I know that each of these banks is proud of their commitments. They feel that implementation of the commitments will enhance their ability to serve the community. Additionally, they believe that implementation of these commitments will grow their revenue and profits.

In particular, and because you are reviewing Sovereign Bank's acquisition of Seacoast Banks, I want to take this opportunity to publicly state, on behalf of the New England Area Conference of the NAACP and the other organizations whose views are reflected in this testimony, that Sovereign Bank New England has distinguished itself in developing a relationship with the Community Advisory Committee.

The bank recently signed a comprehensive agreement with the CAC which includes definitive language on workforce and procurement diversity to reflect the ethnic and gender diversity of the Commonwealth of Massachusetts. The bank, I believe, is a prime example of a bank attempting to serve the totality of needs of the community. The leadership of the bank, of the Sovereign Bank of New England gets it.

I do urge you, the Financial Services Committee of the House of Representatives, to move forward to strengthen the CRA in three important aspects.

One aspect is to ensure that major nationwide banks develop and implement plans that truly serve the totality of needs of the communities they serve. The communities that you represent will be the beneficiaries of such legislation.

Secondly, I would ask that you take action to provide specific language in the CRA to address the issue of ethnic and gender diversity. The issue of race continues as a serious problem in our nation. It is not too much to ask that a bank, in its normal course of business, be a part of the solution and not a part of the problem. The interest of our nation will certainly be enhanced.

Exactly eleven months ago today, I addressed the Federal Reserve Bank of Boston at its public hearing regarding the acquisition of Fleet Boston by Bank of America. At that hearing, I urged the Federal Reserve to defer a decision on the Bank of America's application for approval of the acquisition until such time that a definitive plan was presented addressing the full range of community needs. I continue to believe that such action would have been the proper course and the proper decision of the Federal Reserve Bank.

So third, I request that you strengthen the language of the CRA to provide for such a plan prospectively.

In closing, I am honored and, again, I do appreciate the opportunity to address the Committee on this important affect of your work. Thank you very much.

Chairman BACHUS. Thank you.

[The prepared statement of Juan Cofield can be found on page 270 in the appendix.]

Chairman BACHUS. Ms. Baldwin.

STATEMENT OF IRENE BALDWIN, EXECUTIVE DIRECTOR, ASSOCIATION FOR NEIGHBORHOOD AND HOUSING DEVELOPMENT

Ms. BALDWIN. Good morning, Chairman Bachus, Congressman Frank, and other Members of Congress. I'm the executive director of the Association For Neighborhood and Housing Development.

We're based in New York City and we're a coalition of 93 nonprofit neighborhood housing groups. Our member organizations work in low- and moderate-income neighborhoods around the city, and they work extensively with almost all the area banks on a range of community development initiatives.

My testimony today will focus on the JPMorgan Chase merger, the community development commitments the bank made at the time of that merger, and how they've been implemented over time.

At the time of its purchase of JPMorgan in 2000, Chase was considered a leader in community development in New York City. They were probably the dominant bank in New York City in community development lending and investment. JPMorgan was also very prominent in community development, and both banks were very well respected by our member organizations.

We were very concerned about the JPMorgan Chase merger. We couldn't afford to lose the activities or programs of either bank, and we thought there was a very good chance that might happen out of the merger, particularly in the case of JPMorgan, which was the bank that was being picked up by Chase.

So we met with leadership of Chase during the time of that merger, we met with a vice-chairman for the retail bank, two executive vice-presidents, several other Chase staff, and about a dozen community group representatives.

At that meeting, the bank made a number of commitments. These are discussed in some detail in my written statement, but essentially the bank promised to keep doing what it had been doing in the two separate banks. We weren't asking for an expanded commitment; we were just asking that they not roll back or pull back from what they were already doing.

The main promises they had made to us were that all of the banks' community development programs would be coordinated and delivered through Chase's centralized community development group. We felt the community development group was very strong, and we wanted to make sure it survived the merger.

They also promised that the staff and programs of Morgan's CDC would be preserved; and further, they promised again that the separate levels of lending and investment of the two banks would be maintained after the merger. Again, we weren't asking them to do more; we were just asking them to promise not to do less.

We left that meeting very satisfied with the promises the bank made to us. We were confident that both Chase and Morgan's programs would continue intact.

After the merger was approved, however, the bank honored none of the commitments it had made to us. They almost immediately eliminated important community development programs, they cut their community development budget and staffing levels, and they began to break up the community development group.

So in this past year, when Chase then applied to purchase Bank One, we again submitted written comments to the regulators. These detail our experiences with the previous merger and also discuss how, as a result of the bank cutting back on programs, it was now less able to deliver services on a neighborhood level than it once had been.

Neither the bank nor the regulators responded to our written comments, including the issue we raised that Chase had not honored previous commitments.

So based on these experiences, it is our belief that current laws do not protect community interests after a merger. My written statement cites a number of areas where current law can be reformed. They're on Page 6 of my statement. Two of them echo what other witnesses have already said today. Currently regulators do not enforce CRA commitments, even those made in the course of a merger. We would urge the banks be held accountable for the CRA commitments they make.

Second, the application review process looks at past CRA performance, but does not require that banks provide forward-looking CRA plans. We would urge that banks develop detailed specific CRA plans for each of their local markets as part of their merger application. Again, additional recommendations are in my statement.

With a continuing trend towards mega-bank mergers, what we saw play out with JPMorgan Chase, we expect to see in other

banks, too. It's very timely that Congress consider this issue and find ways to strengthen the CRA to better protect our communities.

Thank you.

Chairman BACHUS. Thank you, Ms. Baldwin.

[The prepared statement of Irene Baldwin can be found on page 91 in the appendix.]

Chairman BACHUS. Mr. Thall?

STATEMENT OF MATHEW THALL, SENIOR PROGRAM DIRECTOR, LOCAL INITIATIVES SUPPORT CORPORATION

Mr. THALL. Members of the Committee, thank you for the invitation and opportunity to testify. My name is Mathew Thall; I'm the senior program director of the Boston Program of the Local Initiative Support Corporation, or LISC. I've been in that position for 13 years and previously was the executive director of a CDC in Boston for a decade.

LISC is the largest non-profit community development support organization in the United States. Since 1980, we have invested approximately $5 billion in 2,400 community development corporations working in and for low-income neighborhoods. This investment has entailed 147,000 affordable homes and over 22 million square feet of neighborhood commercial retail and community facilities space. In Boston, we've invested about $87 million over the past 24 years, leveraging about $725 million of other public and private investment, and helping to support over 6,000 affordable homes.

LISC does a good deal more than just finance community development. We invest in building the capacity of CDCs and non-profits. We often serve as a catalyst to change the local system and attract new investments in community development. I have included in my statement a few interesting examples of this type of work in Boston, in Chicago, in Los Angeles and in Winston-Salem.

I think I can say unequivocally that LISC would not have been able to accomplish everything it has accomplished without the Community Reinvestment Act. The CRA made it possible for us to develop strong relationships with banks, in Boston and nationwide. As the banking industry evolves, it becomes increasingly important to maintain a strong CRA in order to maintain those relationships and to continue the capital flow.

CRA has worked remarkably over the past 25 years fostering and building public-private partnerships around community development. It has helped to weave a network of federal programs into private investment, including HOME, the low-income housing tax credit, new market tax credit. It has been a very, very powerful tool for building low-income communities.

Now that partnership is in jeopardy. LISC is deeply concerned that a series of proposals from the FDIC and the Office of Thrift Supervision would begin to dismantle CRA and the public-private partnership CRA has represented.

OTS has already reduced the oversight of mid-sized thrifts with assets between $250 million and $1 billion. The FDIC has proposed to do the same for the banks it supervises as well as to grant CRA credit for rural community development activities that do not serve

low-income people or places. Now the OTS is considering letting institutions ignore investments and services under CRA.

It is especially disturbing that OTS and the FDIC have acted on their own, without coordination with the Federal Reserve Board and the Comptroller of the Currency, discarding over 25 years of joint policymaking on CRA. Fragmented regulatory policies are not just confusing; they also invite a race to the bottom as banks switch charters to the most lenient regulation and the regulators compete to offer it. We fear that other destructive proposals may follow until CRA loses all significance. Struggling communities would suffer in many ways.

I have attached to my testimony a copy of an op-ed article by LISC's chairman, Robert Rubin, the former Secretary of the Treasury, and our president, Michael Rubinger, which appeared in the New York Times on December 4, 2004. The article lays out a compelling case for keeping CRA strong, and I request that it be included in today's hearing record.

The Committee has invited me to comment on Bank of America's performance to date on commitments that it made in connection with the merger with Fleet Boston.

First, I should say that Boston LISC's experience with Bank of America per se is still young. Bank of America has been a very strong supporter of LISC prior to the merger. I refer the Committee to the testimony of Michael Rubinger before the Federal Reserve earlier this year.

Bank of America has been a major and generous supporter of other LISC sites. Its staff have served on our local advisory committees, which are the local boards. Finally, Bank of America has directly financed and invested in CDC projects that have been "seasoned" by LISC's investments.

While Boston LISC is still building a direct experience with Bank of America, we have had many strong and positive experiences with its legacy institutions: Fleet Boston, BankBoston, Shawmut Bank, and BayBank, to name a few.

Several of Fleet's staff served on the Boston LISC advisory committee board and committees. LISC has done a tremendous amount of lending side by side with Fleet Boston in recent years. We have not only provided predevelopment loans to CDCs needed to get their projects ready to access financing provided by Fleet Boston, we have remained in a number of projects as a permanent lender with Fleet.

LISC would not stay in a deal as a lender subordinate to a bank that it did not trust and hold in high regard.

Bank of America has honored and in some ways strengthened the relationship we had with Fleet since the merger has occurred. We are partnering with the bank and the city of Boston on an initiative to address comprehensive community development needs in the Bowdoin/Geneva section of Dorchester, a neighborhood in Boston, a neighborhood that has often been overwhelmed by problems of poverty and crime. This was an initiative that the bank proposed, not LISC or the city.

Boston LISC is about to enter the final year of a $33 million campaign to raise and invest funds in the neighborhoods, towns and cities in greater Boston. Bank of America has honored Fleet's

commitment to that campaign and has reaffirmed its commitment to leadership of that campaign. We are delighted that Anne Finucane will be taking the reins of chairing that campaign in the next year.

In terms of concrete, measurable commitments, I believe that the merger of Bank of America and Fleet has definitely made substantially more resources available locally for community development. As part of the merger discussions, Bank of America agreed to convert a portion of a statutorily mandated loan to the Massachusetts Housing Partnership into an $18 million grant. There is no statutory or regulatory basis for securing this type of grant from an acquiring bank under Massachusetts law.

Certainly, our very talented and sophisticated advocates deserve much of the credit for this commitment. However, Bank of America was under no legal obligation to make such a commitment. And as far as I know, an $18 million grant by a bank to a state agency for community development and housing is unprecedented in this country.

$18 million for project financing, project and organizational support and technical assistance to non-profits will make a tremendous difference for a long time to come in supporting our collective efforts to develop more affordable housing and stronger communities.

I congratulate the Bank of America for this financial pledge, and I hope the bank will be recognized for this commitment and consulted on how these funds can be most effectively deployed throughout the Commonwealth.

Thank you again for the opportunity to testify.

Chairman BACHUS. Thank you.

[The prepared statement of Mathew Thall can be found on page 328 in the appendix.]

Chairman BACHUS. At this time, we will entertain questions for our panel, and I'll pose the first question.

We've heard testimony about commitments and pledges made by Bank of America. My first question would be, are you satisfied with the commitments and pledges? Not that they haven't been honored yet. We won't know whether they're honored until two, three, four years from now. But are you satisfied with the level of commitments and pledges?

And I'll start with you, Ms. Flynn.

Ms. FLYNN. We're very satisfied with the commitments that have been made to date. The commitment, as Matt mentioned, to MHP is a great resource for non-profits to build affordable housing in Massachusetts. Their commitment to become a member of the Federal Home Loan Bank and other commitments that they've made to the SoftSecond program, they're wonderful.

But the commitments aren't complete, and so we have outstanding requests that we've made to the bank that they have not agreed to yet, and I've outlined them. Those are basically four——

Chairman BACHUS. It does seem to me that the level of commitments and pledges has been—I think there's even agreement on this panel, that if they honor the pledges and commitments they've made, that would be very significant.

Ms. FLYNN. In the areas of mostly affordable housing and investment in housing, but there's still outstanding commitments that they need to make.

Chairman BACHUS. A lot of that is that this merger was already approved, so there's no obligation for them to do so.

Ms. FLYNN. Well, under the CRA regulations, part of the lending test asks how they've met credit needs for small business lending.

Chairman BACHUS. Right, the service and investment.

Ms. FLYNN. And those goals haven't been established yet by the bank.

Chairman BACHUS. But in some ways, I think I've heard testimony that maybe their commitments will go even beyond maybe what Fleet Boston was doing. Is that correct?

Ms. FLYNN. We don't know, because they haven't outlined, in terms of small business lending, what those commitments are.

Chairman BACHUS. My second question is, Ms. Baldwin talked about Chase and the fact that JPMorgan Chase made certain commitments, and I guess these are conversations with the bank officials. Were those reduced to writing, the ones that you say were not honored?

Ms. BALDWIN. In the case of JPMorgan Chase, it was just a meeting. I summarized the commitments in writing, but they didn't put it in writing. I did, and sent it to them, and sent it to the regulators.

Chairman BACHUS. You know, when you don't have it in writing, you learn in life that——

Ms. BALDWIN. Yes.

Chairman BACHUS. Have they denied that there were such conversations?

Ms. BALDWIN. No, they never denied. I should have pointed that out. And usually we do get them in writing. Usually the bank—we tend to be a little informal, because even if we had it in writing, we're not in any place to enforce it; so we tend to rely on the word and the good faith of the bank leadership. And this was the first experience I had where the bank just sort of blatantly didn't do what it said it would do.

Chairman BACHUS. But it's my understanding that some of this they submitted to the Federal Reserve, saying this is what we intend to do, which may not be a commitment. Is that true?

Ms. BALDWIN. At the hearing on the most recent merger, they made a very broad-based commitment for $800 billion over ten years; and, I mean, I'd speak a little bit about how satisfactory those commitments are.

We have a one-page—all I know about that commitment is what I've seen at the Chase website. It's one page, and I don't know the details of it, so I don't know what they're going to be doing in New York City, which is how I define my community.

Chairman BACHUS. So the Federal Reserve, in reviewing these, is not asking for any specificity in the commitments or pledges or asking for any——

Ms. BALDWIN. I don't believe they even asked for commitments going forward, no.

Chairman BACHUS. Just review and see what they have done?

Ms. BALDWIN. I think so.

Chairman BACHUS. Let me close with this. One thing that Bank of America has done that we had at Wachovia Trust—which is the second largest bank in the state of Alabama, and they actually made no commitments to preserve employment levels. They actually said, you're going to lose over a thousand employees, which is obviously a discomfort. But we see that going both ways, businesses where one buys another.

You've got a commitment here, at least a representation that's been made to the public through the press by the Bank of America, I believe, that the employment rate, or the employment totals in the State of Massachusetts by 2006 will be at premerger levels, which is a pretty substantial pledge or commitment. Do you wish to comment on that?

And I know, Mr. Cofield, you've asked that, as they do, that they try to either preserve or be fair to both gender and race in doing that. But any comments there?

I mean, that to me is a substantial at least representation that it is their intention that jobs won't be lost. Now, there may be some higher-paid jobs that are lost and lower-paid jobs that are replaced. Any comment on that?

Mr. COFIELD. I can't comment on the pledge of the overall job creation. That, I think, more than anything else, was a release in the papers and not necessarily a pledge to the community advisory group.

Chairman BACHUS. Of course, from a public relations standpoint, if it is released to the press and told by the press and it's out there, it's acknowledged by them, at least they're subject to——

Mr. COFIELD. Sure, and I understand that, and I appreciate that.

The concern that I expressed about employment and procurement being reflective of the community is an important one; and I contrast Bank of America, who has not to date been willing to make any commitments or have any serious discussions, I would argue, about these two issues, I contrast that attitude with their two largest competitors here in Massachusetts. Those two largest competitors have had serious discussions with us, negotiations that resulted in commitments in those two areas that are reflective of the diversity of Massachusetts.

That's important, and I have to say that I think that's a function in part—I certainly appreciate the leadership of the banks, and I think there is a lot of credit that is due the leadership of these two banks, and in particular Sovereign Bank of New England.

But I also think it's a function of a bank that doesn't have to answer day in and day out to a community. If a bank is nationwide, it might be a little less receptive to responding to community needs in this manner; and I would hope that you, the Committee, would give that serious concern, because again, as I said, the CRA stands for Community Reinvestment Act and not a country-wide reinvestment act.

Thank you.

Chairman BACHUS. And there certainly is a perception, I think, and a tendency, I think, for us to believe that a bank that is not locally owned or controlled may have a tendency not to be responsive.

At this time I'll recognize Mr. Frank, Congressman Frank, whose efforts, I think, in regard to these mergers have already lessened the impact, the negative impact on the community; of him and the Massachusetts delegation as well.

Mr. FRANK. Thank you, Mr. Chairman. I guess lessening the negative impact is my goal for the next few years——

[Laughter.]

Mr. FRANK.——so it's good to have had that experience.

Chairman BACHUS. Or enhancing the positive.

Mr. FRANK. You do what you can in life.

Let me say, first, I have a couple specific questions for Mr. Thall. I very much appreciate your thoughtful warnings about what will happen to CRA.

I've been a big CRA supporter; in fact, I put that article by Mr. Rubinger, into the Congressional Record. I was particularly struck by Ms. Hagins' comment that lending to low-income in general, and minority low-income mortgage groups, in mortgages, is twice as great for people covered by CRA as for people who aren't. This is very relevant data for us.

And as you point out, because of changes in the financial sector, more and more mortgages are being granted by people who are not banks, and the banks who are under CRA are competing with them. I do think that's something we should be addressing, that there ought to be an extending of that CRA requirement, because I think it has had virtually no negative effect and some positive effect.

So I will tell you that I did have a conversation with Mr. Powell from the FDIC, and he indicated to me that he accepted the fact that deciding that all rural activity was automatically CRA was not a good policy; and I think we may be able to at least re-establish that test, that low-/moderate-income test as a prerequisite in the rural area, but I appreciate that.

Let me just say one of the things about Sovereign which I appreciated, and that is, Ms. Flynn mentioned one of the important things for us is the affordable housing program of the Home Loan Bank system, which is a program created by this Committee under the really superb leadership of the late Henry Gonzalez, who was then Chairman. We created this program where a certain percentage of the profits of the regional Home Loan Banks have to be put into an affordable housing program.

With regard to Bank of America, the problem with the mergers goes to where the bank is headquartered, because when this program was set up, people weren't thinking that—I guess this used to be called the Banking Committee, and then it was changed to Financial Services.

Somebody said, are we ever going to change the name back? I said, yeah; but by that time, we may change it to the Committee on the Bank.

[Laughter.]

Mr. FRANK. What you have with the mergers is that there's now a disconnect between economic activity generated by a bank in a particular region and the Federal Home Loan Bank that gets the credit for that, because it goes to the headquarters of the bank.

Now, one of the things that B of A did, and Maureen Flynn correctly gave them credit for that, was voluntarily to agree to take out an additional charter in the Boston area so that the money generated by B of A will go to the affordable housing program. Sovereign, to its credit, was willing to do that, because as a unitary thrift, as I understand it, they can't do it as easily. They've been working with us, and I'm very appreciative of Sovereign's working with us to try and enhance that.

But now on Bank of America, let me say, I guess you get the question: Is the glass half empty or half full? And the answer is yes.

[Laughter.]

Mr. FRANK. As Maureen Flynn pointed out, with regard to housing, I am very pleased that Bank of America has been very responsive. I said to others, housing is probably the greatest thing we need here in our area because of the extraordinary housing prices; but we do need economic activity to go along with it.

Part of this may be a question of cultural difference. I understand for Bank of America to come into New England, sometimes things are done a little differently here. During the Democratic Convention, when some journalists were asking me why things seemed to be so hard-edged, people dealing with each other, I said, well, at some point we tend to do everything like we drive, in which you cut no one else any slack, but you get highly indignant if people don't cut you some.

On the other hand, we have some real concerns here, and the economic one is real; and I must say, it has not seemed to me that what you were asking for was unreasonable.

Let me ask both Mr. Cofield and Ms. Flynn: It seems to me that, in part, the issue is not so much the quantity of what's being requested, it hasn't been that people have said that's unreasonable; it's kind of a cultural objection to having it be specific. Am I correct? Does that seem to be part of our problem?

Ms. FLYNN. Yes, that's correct. We're not arguing about the amounts of commitment, especially on the small business lending piece; but we want to know, where is the small business lending going to be made?

So, are there going to be loans in low- and moderate-income areas as the CRA calls for? Are there going to be loans of less than $100,000, again which is something that banks have to report on under the CRA regulations? And are there going to be loans—and this is perhaps the most important aspect to us—to companies with less than $1 million in revenue?

As CDCs, we have small business technical assistance programs for many of our CDCs that help very small businesses start and grow, and often those small businesses have a hard time getting credit. That's what we're looking for, is to meet the credit needs.

Mr. FRANK. Let me say, I understand there's a tendency, always has been, to withdraw in a little bit of anger when people question our bona fides. I guess I would urge the banks that, you're dealing with people who have no particular reason to know you; maybe their life experience with large financial institutions hasn't been among their seven favorite memories.

I would hope that the banks and Bank of America, would distinguish between—if you're being asked to do something unreasonable, let us know. And I would say to Mr. Cofield, obviously when we ask for a commitment in terms of percentages in diversity in both hiring and procurement, obviously we also have an obligation to make sure that we can show that it's reasonable, and be available to help achieve those goals. We understand naming the goal doesn't mean that you're automatically going to be able to achieve it. You have to work together towards it.

But I would hope that people would not stand on the kind of ceremony and be offended at being asked to prove the bona fides. These are not personal relationships; this is not proof you love me. This is what has been an arm's-length situation, and there have also been these kinds of series of mergers, as Mr. Thall read off the list of entities that are now under the Bank of America roof. That's where we are.

Let me just ask a question of Ms. Baldwin, because you've been talking about the negative effects of the JPMorgan Chase merger on community reinvestment. What about, now, the addition of Bank One? Because this very big bank has just gotten bigger. What's the experience been? I know Bank One hasn't been operating in your area, but I know in the Midwest, it's particularly in that area, where the Chairman of our Committee is. What have you heard about the addition, or has that caused further problems; do you know?

Ms. BALDWIN. It's a little early. Actually, technically Chase is buying Bank One, although it's playing out as if Bank One had bought Chase.

One of our concerns is that the retail headquarters is going to move to Chicago, and the difficulties we have now working with Chase on a neighborhood level we're just concerned might be more difficult if everybody we speak to is coming out of Illinois.

Mr. FRANK. Let me just comment on that. I would hope all the banks would understand that it's a natural human tendency to feel more comfortable with people who are nearby, with people whom you know, who you think know you.

When these mergers happen and headquarters get moved further and further away, I hope the banks will understand that it is important to reassure people. They tell us there isn't going to be any real difference, et cetera. Well, then you shouldn't be reluctant to let people know, because the degree of unease that is cascading here is very significant.

Thank you, Mr. Chairman.

Chairman BACHUS. Thank you, Mr. Frank.

At this time, Mr. Murphy?

Mr. MURPHY. Thank you, Mr. Chairman; and thank you, panelists, first of all for the people that you represent, the thousands, perhaps millions that you represent, and your care and concern about them.

I'm pleased you bring these issues before this panel, because although this is the Committee on Banking and Financial Services, ultimately our concerns reach down to individuals like you represent to make sure that people have opportunities always to live under an equality of law and have opportunities to climb upwards.

I'd like to start out by asking if any of you were individually involved in some of the discussions referred to before, with Sovereign Bank and Citizens Bank.

Ms. FLYNN. Yes. Actually, our three organizations were all involved in all of those negotiations.

Mr. MURPHY. Let me ask about this: How long did that process take from the time that the merger actually was finalized at the board until you achieved some results and agreements on this?

Ms. FLYNN. Well, the Sovereign negotiation wasn't pursuant to a merger; it was an extension of a previous commitment that they made. That agreement was almost complete a year after it began, but then it took a little longer than that, because there were some——

Mr. MURPHY. A couple years?

Ms. FLYNN. Almost two, I think.

And the Citizens one, I believe it was a lot shorter than that, but I'm not sure.

Mr. MURPHY. How much shorter, would you say?

Mr. COFIELD. Six months to a year. In a general sense, that was a general commitment made pretty quickly in both cases, and getting down to the specifics took longer in both cases.

One of, I think, the important distinctions is an attitude about working with the community groups. We saw it with Sovereign and Citizens Bank pretty quickly, if not immediately. There was an openness and an attitude that we were trying to get to a goal, and it was just a series of negotiations.

I have not seen that with Bank of America until this past Thursday, December 9; and as I said in my opening remarks, you, by coming here and having this hearing, has had an impact in and of itself.

Mr. MURPHY. I have a feeling that's why we're here.

[Laughter.]

Mr. MURPHY. I want to ask, try and lay this out: This merger really didn't begin until March of this year, so it's about eight months—excuse me; it wasn't really finalized until March of this year, so really it was eight months away.

Ms. FLYNN. But we submitted our proposal in November right after the acquisition was announced.

Mr. MURPHY. And during that time, between when the intent of the acquisition was announced and when it was finalized, were there any discussions that took place at all.

Ms. FLYNN. Yes.

Mr. MURPHY. So they didn't shut you out. I just wanted to make sure of that.

Ms. FLYNN. But the discussions were around whether they were going to do a plan. The discussions with Citizens and Sovereign were about an agreement, a partnership, between the bank and the community.

Mr. MURPHY. Was there somebody even assigned to talk with you in these negotiations?

Ms. FLYNN. With Sovereign and Citizens? Yes.

Mr. MURPHY. But also with Bank of America?

Ms. FLYNN. Yes.

Mr. MURPHY. I just want to make sure I'm understanding, because what you're describing is very, very important. In part, I want to make sure we're not—like we're in the third inning; we're not judging what's going to happen in the ninth inning.

But the other issue is, what you're describing is an important—I don't know if "attitude" is the right word, but an attitude of openness that you would like to see more of, at least as things have begun to happen.

Yes, Ms. Hagins?

Ms. HAGINS. To be fair, when they came and met with us in November—this is Bank of America—we talked to them about the SoftSecond mortgage program, which Fleet had already been doing for a number of years since they came into Massachusetts. We had an agreement almost within a couple of weeks in November with the SoftSecond mortgage program.

Mr. MURPHY. That's good to hear.

Ms. HAGINS. Because it's a mortgage product that works well.

Mr. MURPHY. So in some areas, they did move rather quickly; in other areas, you want to see their continued progress moving some of these, particularly the hiring practices and the availability of mortgage—I know in Pittsburgh, we went through some of this when Mellon Bank sold off all their branches to Citizens Bank.

It was locally of concern to them, the very same thing: What would happen to the local commitment? Who would be hired, and what jobs would be lost?

We found that, over time, growth was taking place. We also worried about the impact on all the other banks headquartered in the Pittsburgh region, some fairly sizable banks; wondered what would happen with those. Over time, I've seen a number of these things work out, and to a large extent because folks like yourselves remain vigilant to that.

I see my time is up. Thank you, Mr. Chairman.

Chairman BACHUS. Thank you.

And, Mr. Watt, before you ask your questions, what we've done on this thing, normally what we would do is go by the Committee Members and those off the Committee; but the Committee felt like the Members from Massachusetts, whether they're on or off the Committee, we would go by seniority of all the Members here.

So the order will be Mr. Watt, Mr. Capuano, Mr. Meeks, Mr. Tierney, Ms. Lee—Capuano, Meeks, Tierney, Lee and Lynch. So that will be the order.

Later, as Members outside the state like Ms. Lee may have to catch a plane, we will allow them to go before other Members.

So at this time, Mr. Watt?

Mr. WATT. Thank you, Mr. Chairman. You've just reminded me how old I'm getting, if you start looking at it in those terms.

[Laughter.]

Mr. WATT. I've made five points that I want to try to make, not necessarily around questions.

First of all, I want to applaud Barney's role, Representative Frank's role, in this whole process.

Many of you probably don't know that the first news I got of the Bank of America/Fleet merger was from Barney. I had been in Detroit at a Democratic presidential debate, and I had been traveling

all weekend, and then I was going from Detroit to Chicago for a meeting at the Board of Trade. The first person I ran into when I got to Chicago that morning was Barney Frank, with this white look about him, saying, your bank has taken over my bank.

Fortunately, the first time I had heard that, I heard it from folks in Florida when Bank of America went to Florida; I had heard it from folks in Texas when they went to Texas; I had heard it from folks in California when they went to California; and I had heard it in other contexts when First Union and Wachovia had gone to other places. So it's kind of a unique experience.

Chairman BACHUS. We were also getting tired of it, you know. [Laughter.]

Mr. WATT. But Barney's role in this, from that moment, we worked together to try to make sure that the commitments that were being made were genuine and that Bank of America lived up to the commitments that it made; and I want to applaud Barney's role in making sure that these hearings and the specifics of these commitments get lived up to.

Second, I want to applaud the panel this morning because you didn't come in talking about generalities; you recognized that specific commitments are talked about in communities where banks and people live; so every one of you, as you went down the roll, talked about the specifics of the communities that you represent.

I think that's an important challenge to make to Bank of America, because the comment about CRA not standing for Country Reinvestment Act but Community Reinvestment Act is an important one.

Third, I want to say that we have, in a sense, taken a lot of these kinds of things for granted in our Charlotte community, in our North Carolina community, from Bank of Charlotte to North Carolina National Bank to NCNB to Nations Bank to Bank of America.

There have been a certain set of expectations that we haven't even tried to document in our communities, because we have seen the dramatic impact that a financial institution, with good intentions and with lots of resources—in fact, three financial institutions—Bank of America, Wachovia and First Union, and now the combination of those two after the merger—can have on a community.

Bank of America and First Union and Wachovia have had transformative impacts on the skyline and the community fabric and the employment fabric and the procurement fabric of our communities in ways that—I mean, I could go on and on, including the neighborhood in which I live, when I was on the NCNB Community Development Corporation board, stabilizing that community.

But it's all been an assumed part of what would happen rather than a contractual part. And when Barney was talking about the specific written commitments, I could understand the difference, because it hadn't always been about signing an agreement; it's been about seeing the results of those commitments without even having the benefit of an agreement.

But Bank of America needs to understand that as it expands to other parts of the world where they don't have the benefit of that good will, there needs to be a different dynamic; and the same kind of commitments that have been made or the same kind of perform-

ance that has been reflected in our communities that we have taken for granted will be now expected to be reduced to writing and delivered upon in different locations in a different kind of framework. That's the cost of becoming a national bank: the lack of community confidence that it will just happen.

So my final point—and I'll follow this up with questions to the Bank of America representatives when they come—is that the commitment to CRA, the lending commitment to serve the credit needs of a community, the commitment to employment, the commitment to procurement, it seems to me has to be as basic a part of a merger and results evaluation of a financial institution as serving the wealthy investment people—I notice we're moving 300 jobs here to serve the wealthier people—or it has to be as basic a part of the commitment as, what happens at the bottom line?

Because that's what we expect banks to do in this country; and while it's not mandated except in the CRA from the lending perspective, there is an expectation that banks and every institution in our society will do their part to eradicate the disparities that exist in employment opportunities and business opportunities and small business opportunities and procurement opportunities because those disparities continue to exist.

So I didn't ask a question; I made a series of comments. But I hope this helps put in context that national statistics don't always tell the story of community reinvestment. Community reinvestment is evaluated in communities in which institutions live and work, and those specific kind of expectations have to be a part of achieving the global CRA and community expectations that we all want to have, do have, sometimes in not so supportive political climates or economic climates, but the expectations and aspirations are still there.

Chairman BACHUS. Thank you, Mr. Watt.

Mr. Capuano, you're recognized for any comments or questions you might have.

Mr. CAPUANO. Thank you, Mr. Chairman.

First of all, I want to welcome you all here to Boston. We tried to do the best we could with weather, but hopefully it won't snow before you leave.

I want to thank all the panelists for being here, and I also want to make a brief commentary first.

We're going to talk a lot about the future, but there's also one segment of the people impacted by this merger that are not directly represented here, and that's the employees of the former Fleet and the new soon-to-be, or actually now, Bank of America. And I will have some questions for the people who represent the bank later on.

But I actually think it's too bad that we don't have somebody that we could talk to about employees, and that's a function of the fact that the financial services industry is not very well unionized. Therefore, they don't have spokesmen. And I take this opportunity to encourage those people that work for various large institutions like that to get together so that people like me can have a representative to ask questions that you're not really qualified to answer.

I also want to make a point—and I know that people on the panel know, but I want everybody to make sure that we are very clear—though we've said some good things about other banks, Citizens is run out of Scotland; Sovereign is run out of Pennsylvania. They are not local banks.

I actually find it refreshing that although they are not technically local banks, we treat them as if they are. I think that's a function of leadership, and more importantly, the authority that the local leadership has been given by their various corporate boards to actually run it as a local bank, and I think the question is still there relative to the Bank of America.

They have appointed some people that are local and that, as far as I'm concerned, are very good people that we can work with. I think, for me, the question is, do they have the authority to really act as a local bank? I think that just takes a matter of time to make that determination.

The questions I have really revolve around a document that I just got Sunday at 10:30 at night that I guess some of you—I assume all of you have seen it as of Friday, or most of you have seen it—something called the Community Development Strategic Business Plan from the Bank of America.

As the Chairman said earlier, I mean, some of the numbers here are pretty good. We've seen most of these numbers before, and it's great that affordable housing is going to get four billion one hundred eighty-five million dollars over the next several years. That's a wonderful number. Without having looked at the statistics as to whether that really is a wonderful number, I will accept it as such, because it's a huge number, and that's great.

Can any of you tell me where that money is going?

Ms. FLYNN. Any of us panelists?

Mr. CAPUANO. Yes.

Ms. FLYNN. No. We asked the question, what was included in that; and there was a little confusion around what was included within that category. So it seems to be affordable lending, some mortgage products, and some investment in rental and real estate projects; but we're not sure what——

Mr. CAPUANO. Have we defined the terms "low" and "moderate income"? Have they accepted them as certain definitions, or are they generic definitions?

Ms. FLYNN. No, we don't know what the term "affordable" means under this.

Mr. CAPUANO. So we don't know what towns they're going to?

Ms. FLYNN. No.

Mr. CAPUANO. We don't know what category of people?

Ms. FLYNN. No.

Mr. CAPUANO. Do we know whether these are homeownership or rental?

Ms. FLYNN. No.

Mr. CAPUANO. So we just know a number.

Ms. FLYNN. Right.

Mr. CAPUANO. What about small business? One billion three hundred fifty million.

Ms. FLYNN. The same. We don't know any information; we don't know how many small businesses, how many loans, if it's going to

cover the entire state, whether outside of Boston will be the beneficiary of any small business loans, whether smaller small business loans will be able to access this kind of credit.

Mr. CAPUANO. So we know a number, and that's about it?

Ms. FLYNN. Right.

Mr. CAPUANO. I assume no one here is holding back information on this.

Ms. HAGINS. Well, we have a commitment for ten years for 3,000 mortgages, but it doesn't have a dollar figure.

Mr. CAPUANO. Mortgages to whom?

Ms. HAGINS. To the SoftSecond mortgage program.

Mr. CAPUANO. To the program that already exists?

Ms. HAGINS. Right.

Mr. CAPUANO. That's good. So that's a program we know is going to qualify, and we know how it's going to work. Good.

Again, I read the document; I've read it several times now, and it's a pretty good document. I like the numbers, I like the generic, broad-bush thing; but I'm kind of left a little empty. I mean, promote affordable housing production through a continuation of partnerships with the Mass. Housing Investment Corp. Great organization; they do wonderful work. Mass. Housing Partnership; again, great. Mass. Development, Mass. Housing, CDAC—do we know how much each of those organizations are going to get?

Ms. FLYNN. We know just how much Mass. Housing Partnership has received, but that's a requirement under state law, for them to receive a certain amount of loan obligation. Bank of America did convert some of that loan obligation to grant, so we know how much that is.

Mr. CAPUANO. The thing I like is, the bank will convene a national advisory council made up of prominent public and private sector leaders throughout the Bank of America franchise. Could you tell me who the national advisory council would include? Any of you?

Ms. FLYNN. We don't know.

Mr. CAPUANO. Any of your organizations?

Ms. FLYNN. We don't know.

Mr. CAPUANO. I guess for me, it's a great document; there's really nothing I can criticize in this document; but, okay, now what? Have you had any idea of when we're going to get a little bit more meat on these bones?

Ms. FLYNN. No.

Mr. COFIELD. No.

Mr. CAPUANO. Just out of curiosity, when you did Citizens and Sovereign, which obviously I was involved in, did you get this level of detail or this lack of detail?

Ms. FLYNN. We had an agreement with both of those banks, and they were probably six or ten pages each. I have copies of them here. They outline each of the areas that they are going to be lending in; the number of loans going to LMI areas, et cetera; the amounts of commitments to MHIC; the amounts of tax credits they're going to purchase.

Mr. CAPUANO. My final question, because my time is running out: Have you had any indication of when there might be meat added to these bones? I mean, are you meeting tomorrow to put

some meat on this, or next week, or next month, or next year, or in my lifetime?

Ms. FLYNN. We understand that this is the plan they promised us from Massachusetts.

Mr. CAPUANO. Thank you, Mr. Chairman.

Chairman BACHUS. Thank you, Mr. Capuano. You probably should have been a lawyer.

Mr. CAPUANO. Would have made more money.

[Laughter.]

Chairman BACHUS. At this time, Mr. Meeks?

Mr. MEEKS. Thank you, Mr. Chairman.

And I, too, want to first thank all of you for your testimony today; but furthermore, I want to thank you for what you do every day, because what you do every day is looking out for those who may be less fortunate than most, and what you do every day is try to make sure people indeed have an opportunity to share in what folks call the American dream: that is home ownership, that is to have a job, a roof over their head, and that is to have a better life, to afford them the opportunity to give their children a better life than they had themselves when they were growing up.

So you should be commended for what you do every day. Most of your jobs I'm sure don't make you rich. You don't get the huge bonuses that others may get for what they do, but your commitment is what makes this country great, and I want to thank you for it.

Financial institutions and financial services, of course, coming from New York, it's the backbone of New York. I've heard my colleague Mel Watt talk about Charlotte. I know we're here in Boston, et cetera; but without financial services in New York, this city, and indeed this nation, could be greatly affected.

I can recall, about twenty years ago in New York we had six major national banks. Today, they're down to three. I mean, it's like we had, I think it was Citibank, Chase Manhattan, Chemical Bank, Manufacturers Hanover Trust, NatWest, and eventually Fleet Bank, and of course JPMorgan was there doing all of the high-end privileged services.

Then we had Citibank; Citibank is still Citibank. Manny Hanny was swallowed by Chemical. Chemical then melded with Chase. Chase then merged with JPMorgan, which now has merged with Bank One.

The thing that concerns me at some times is that maybe ten years from now we'll have one bank, one insurance company, one securities company, and all will be affiliated through Gramm-Leach-Bliley, which can have an effect on competition, and therefore on services that may be in the community.

Now, I understand that financial institutions have to make some money, and I'm not opposed to them doing that. In fact, I want to encourage and help them to do that.

But I have some concerns with reference to making sure that we continue in the climate of the negotiations that go on once we have these mergers. What I'm hearing from the panelists here is, it seemed to have been a different climate when you had the negotiations with Sovereign as opposed to negotiations that are currently going on.

So I guess, before I make that assumption, is that correct? Is there a different climate in the negotiating rooms that you've had with both?

Mr. COFIELD. Certainly, on the two aspects that I spoke about, a very different climate. That's what I was making reference to when I referred to an attitude of openness. It's just quite different.

Ms. FLYNN. I agree. The negotiations weren't pretty with Sovereign or Citizens. The bank pushed us; we pushed the bank. But in the end, what we got out of it was an agreement, a partnership, about how to meet low- and moderate-income credit needs in the Commonwealth.

So in the end, there was an agreement, a partnership.

Mr. MEEKS. Now, let me jump to—and I know Mr. Cofield mentioned this, but I'll open it up.

In regards to either with Sovereign and now dealing with Bank of America, is there any specificity with reference to any goals in regards to procurement, in regards to employment of African-Americans and minorities and women?

Mr. COFIELD. Yes, there is. And Maureen is absolutely right; that took some time and negotiation.

People of color represent roughly 20 percent of the population of Massachusetts—it's a hair under 20 percent—and people of color meaning blacks, Latinos, Pacific, Asian-Pacific and Native Americans. That represents roughly 20 percent, close to 20 percent, a hair less than 20 percent of the population of Massachusetts.

Our approach was, that diversity in Massachusetts ought to be reflected in the employment levels of the bank and in the way the bank does business; and we think that's reasonable, that the bank's business reflect the population.

We did achieve that aim with those two banks. With Sovereign, we first had a five-year agreement right after their merger; and because Sovereign was new here and we didn't know how they were going to work out, and they probably weren't so sure, the agreement called for a renegotiation of the five-year deal three years into the deal. So we had an agreement initially. That agreement was renegotiated over the past few months and signed a few days ago.

And let me say, to Sovereign's credit, what they've agreed to do is to sign a totally new five-year deal; so they have added on three more years beyond what was initially required in the five-year agreement.

Mr. MEEKS. Are you anywhere currently with Bank of America in regards to goals?

Mr. COFIELD. No, we are not; and that's what I referred to as disappointing.

I had at least a refreshing conversation with the two bank officials on Thursday morning, and it was an extended conversation. But there has not been a definitive discussion about the two issues that I've raised at all, and what they have referred to is their national plan.

That's why I refer to the CRA being a community-based plan and not a country-wide-based plan. I hope we would get there; there was no indication that we would get to the community-specific level in the discussion on Thursday. I did see a change of attitude in

that discussion, and I'm hoping that it would get to the level of specificity that we have with Sovereign and Citizens.

They are well aware that their two largest competitors in Massachusetts have provided the specificity, and that's what we're looking for, and we think it's most reasonable. To have any other plan would suggest that you're going to continue to have an employment level that shows disparity, and a procurement level that shows disparity.

Mr. MEEKS. My last question—I see my time is up—this is to anybody, because I haven't heard anyone speak of it, but I know particularly in communities where there are poor people, as far as education is concerned, one of the biggest disparities is the lack of understanding, in public schools in particular, where there's no financial literacy being taught.

So my question to anyone is, is there a discussion ongoing, whether it was with Sovereign or with Bank of America or with anyone, about a part of CRA being investments within particularly public schools in regard to teaching young people about financial—or making them become financially literate, so therefore they can take care of their money and understand better how to operate and deal on a personal level when they're banking with whatever the financial institution may be?

Mr. COFIELD. Certainly some of the organizations that are a part of the Community Advisory Committee provide programs dealing with financial literacy. And I agree; I too think that that's very important.

To the extent that these institutions are supporting, by grant and in other manners, those organizations that are providing that program, I would answer yes.

Chairman BACHUS. Thank you, Mr. Meeks.

Mr. Tierney?

Mr. TIERNEY. Thank you.

Thank you, Mr. Chairman. I want to thank you for working with Congressman Frank to bring this hearing to Boston and the Massachusetts area, and I want to thank you also for allowing me to join the Committee, and all of the other Members for their courtesies in terms of letting me be here, as well as the order of speaking; and I appreciate that a great deal. I thank all the witnesses for their testimony and for what you contribute to our life around here.

I seem to hear over and over again that this is a situation where we need a good negotiation to be conducted on the important matters, and that where you've had that negotiation, everybody has benefitted. It's been good for the banks, good for the groups for which you advocate, and good for the community.

Somebody described—I don't know if it was Ms. Baldwin or who it was that said it—there was a push and shove, push with Sovereign, Sovereign pushed back, and the same with Citizens.

It appears to me here that in the past, Bank of America doesn't like being pushed, either because they think they're too big for it or because they haven't yet focused on the local idea in how allowing this to go on is really going to be important for this region and for the local aspect of this. So hopefully we can ask some questions about what the attitude situation is at the bank when we have those witnesses here.

I would like to ask just two questions.

One, Mr. Cofield, when you talked about race, which I think is important, how would you propose that the current law be changed in order for us to address the continuing concerns regarding that issue?

Mr. COFIELD. It is my firm belief that we should be working towards a goal in which race is no longer an important issue in our nation and in our communities.

I would like to, at some day, see that there's no more of a need for an NAACP, that we as a nation have gotten beyond the issue of race.

I truly believe that if we're going to get anywhere near there, we need to work towards a solution that ends disparity and not supports disparity; and that's what I'm trying to convey and is the thrust of my presentation. We need a program that doesn't continue to support disparity.

That's the distinction that I've seen today between our dealings with Sovereign and Citizens. I think both of them get it, and I do give a lot of credit to the leadership of both. We just haven't seen it today.

Mr. TIERNEY. Can I interrupt you? Only because I'm limited in time, and I want to do this as respectfully as I can; but how specifically are we to change the law? I think your goal is exactly on point. But is it the law that we need to change, or is it the enforcement aspect?

Mr. COFIELD. It's probably both; but certainly as it relates to the law, in my opinion, there ought to be specific language in the CRA that requires an institution, when it goes or is already in a community, that it set up programs to reflect the racial and gender disparity in both of those areas, in employment and in procurement.

And I think that's rather easy. There is available census data that shows the diversity of a community, and in my opinion there ought to be specific language in the CRA regulations, in the CRA statute, that requires that a bank, in operating in a community, reflect the diversity in that community.

Mr. TIERNEY. Thank you. And then I suspect that that wouldn't do much good unless we had some enforcement mechanism on that after the merger on that.

Mr. COFIELD. Absolutely.

Mr. TIERNEY. Ms. Flynn, let me ask you the same question, but this time with regard to the small business lending. What changes in the statute do you think are necessary to allow us to address the concerns that some institutions may not be focusing on how they're going to distribute small business lending?

Ms. FLYNN. I think the statute, as written, is pretty broad. It says that banks should affirmatively try to meet the credit needs of the communities in which they serve.

So even issues around race and how they are going to serve communities of color could be met under the current law. It's how the law is interpreted under regulation.

Right now, there is an emphasis in the regulation on serving the needs of low- and moderate-income communities, and that's great; but it doesn't exclude the need to look at how communities of color have been served.

So if the regulations were tweaked to be more specific about the communities and individuals within the community that should be served by the banks, that would be an improvement.

Secondly, on the small business aspect, again, the banks must report under CRA how they've done on those three categories of small business lending. So it's there, but perhaps a greater emphasis on that part of the test in awarding grades on CRA would be beneficial.

Mr. TIERNEY. Thank you very much.

Mr. Chairman, thank you again.

Chairman BACHUS. Thank you.

Mr. Lynch?

Mr. LYNCH. Thank you, Mr. Chairman.

I have a statement I'll enter into the record, in the interest of time; but I do want to say, if I could go back to Mr. Frank's opening statement, he talked about the rhetorical question about what Congress's rightful role here is in requiring a private entity or private entities to make such sizable contributions to the public good and in some cases of a charitable nature.

I just want to emphasize or re-emphasize his conclusion that government has played a significant role in creating banks of this size. We have enhanced and protected the position of Bank of America. We have seen them acquire a number of banks, and now they have become so large and so overpowering and so overwhelming to the average citizen, and now even the average community, that I think it is entirely reasonable for citizens and their representatives to come to Congress to ask Congress, that created these conditions of powerlessness in many communities, to be their champion and to speak on their behalf.

I just want to thank the panel for measuring the unmet need in their communities and coming forward and articulating so well on behalf of all of our communities, of color and of need, and helping us to close the loop, if you will, with the Bank of America and Sovereign as well in terms of addressing that inequity in power between our local communities and this bank; and also somehow keeping that close connection between our banks and those local communities so that that community connection is not lost when these banks, as Bank of America has become a bank with over a trillion dollars in assets, and a far-flung empire from California to Boston and everywhere in between. It's very difficult for local communities to get response and to remain a viable priority in the eyes of such a huge organization.

So I want to thank the Chairman, and I want to thank my colleagues in the Congress for honoring us, really, and giving this wonderful courtesy to come to Boston, to my district.

I also want in particular to thank Ms. Hagins for her work. I grew up in the Old Colony housing projects not too far from here, and I know how important that SoftSecond mortgage program is for a lot of my constituents who are still struggling to buy their first home.

That first homebuyer program is a great program, and we need to see more of that continue; and if it were not for the work that is being done by Ms. Hagins and others who are here today representing our CDCs and affordable housing advocates, this need

would be lost. It would be lost in the shuffle, and the problem would grow worse, not only in the city of Boston that I represent, but also in the city of Brockton that I represent that is about 40 minutes from here, and all the towns in between.

So I appreciate the good work being done by this panel and the spirit of cooperation we've seen from Bank of America and Sovereign thus far.

Thank you.

Chairman BACHUS. Thank you.

Ms. Lee?

Ms. LEE. Let me first thank our Chairman and also Representative Frank for calling this hearing and for our panelists, for your very succinct testimony.

Of course, I have much history with Bank of America, going way back to before its leaving San Francisco and Oakland. During the late '80s, mid to late '80s, in low-income/moderate-income communities in my area, B of A unfortunately began to leave; it wasn't profitable enough. We saw then the rise of predatory and payday lenders, and there was a big void in the Bay Area as a result of that.

Then of course, unfortunately, with the move to Mr. Watt's district, we still haven't recovered from the negative economic impacts in terms of employment and really a turnaround in terms of what we had hoped to take place with regard to economic investment and compliance with CRA.

A couple of things I'd like to just ask panelists.

First of all, in any financial transaction between a consumer and a financial institution or a credit card lender or any organization, the consumer is required to live up to their commitments as they engage in these negotiations and these agreements. There's a penalty if they don't live up to their commitments.

With regard to CRA—and I've heard this over and over and over again—commitments are made during the merger process; they may or may not be specific; but after the merger takes place, it's like you would never believe there were any commitments made.

We heard during this last election the notion of values, that ethics was very important; and I'm just wondering—and a consumer would be considered—you know, that behavior is considered unethical.

I'd like to just ask the panelists how you viewed not living up to a commitment in order to get a deal done, and then—and I'll ask the banks this, also—then say either we didn't make the commitment, we did make it, it wasn't what you thought it was, we need to go back to the drawing board.

What are the ethical kinds of dimensions of that that we really need to look at, aside from the legal aspects? Which I think there should be penalties, quite frankly; if in fact organizations and financial institutions say they're going to do something, then they should do it. But beyond that, how do we look at the correctness of that just in terms of American values?

Ms. HAGINS. I know we have written agreements with all of the banks that do the SoftSecond mortgage multi-year commitments. No, we can't go to court and use them, but we hope that they would live up to those commitments. We meet with the banks every year

to make sure that they are on tune to do the number that they've agreed to do.

We will hold a community meeting, as we did—the last one was two years ago with 1,500 people in the room—and they have to be accountable to those people. So we try to make them accountable in that way, because we don't have any legal recourse other than that.

Mr. FRANK. That does include the Bank of America in this case, correct? They have a written agreement.

Ms. HAGINS. Right, they have a written agreement for ten years for 3,000 loans for the State of Massachusetts.

Mr. COFIELD. Congressman Lee, I do see it as a moral commitment. And the role of the Community Advisory Committee and the organizations that compose that loose-knit coalition is to stay in place; one, first to negotiate what we believe is a reasonable agreement with the institutions, and then to work with the institutions to help them achieve the goal.

And generally that's the way it has been working here; sometimes better than others, but that's the way it has worked here, as we have reached these agreements, and the CAC stays in place and sees it as its role; and the banks that we have dealt with generally have seen that as a positive thing, so it has worked well.

But clearly, we believe that it's certainly a moral commitment, if not a legal commitment.

Ms. LEE. Ms. Baldwin, can you comment?

Ms. BALDWIN. Yes. I personally have had a lot of frustration with our experiences with JPMorgan Chase. I'm not naive, but I was sort of shocked that a reputable institution just wouldn't do what it said it would do.

Usually the discussion is around, well, gee, maybe we misinterpreted our various commitments, where the bank is saying they would do A and they thought they were honoring it, and we had a different idea in mind.

Most often we do get letters in writing, saying they'll do certain things. I have no idea if those are legally enforceable or not. And banks generally—where I run into difficulty is monitoring. I've had some banks tell me, yes, we're doing what we said we would do; but we won't give you the line-item detail on what these community development loans were. You just need to trust us that we're doing it.

The other issue I have is that although these commitments aren't required to get the merger approved, they announced them in the course of the merger. So I do think, since that was the context they played out, the regulators really should look at it and hold them accountable to honor what they were doing.

Ms. LEE. Should past compliance with any type of CRA progress be part of the criteria for a merger, or is it only prospective? Or should it be just prospective?

Ms. BALDWIN. Well, it's actually overweighted on past performance; and my sense, from when I read the approval orders, they rely very heavily on CRA performance evaluations. Those CRA performance evaluations I don't think look specifically at how banks have honored existing CRA commitments. I'm not sure.

But there's no requirement that going forward, that any of these banks do a specific CRA plan.

Ms. FLYNN. I think one way to deal with this issue is, on the next exam after a bank, two banks have merged, on their next CRA exam, to bring this up as an exam question, if you will, that the banks should be graded on immediately after they merge so that they are held accountable to the promises and the commitments that they made before they merged.

Ms. LEE. Thank you very much.

Chairman BACHUS. Thank you very much; and Mr. Frank, as he said, your testimony was very helpful. We appreciate your attendance here today.

At this time we'll call our second panel.

Our second panel is Ms. Anne Finucane—is that correct?

Ms. FINUCANE. That's right.

Chairman BACHUS. You were formerly with Fleet Boston, and are now the president of Northeast Bank of America.

Ms. FINUCANE. That's right.

Chairman BACHUS. And Mr. Joseph P. Campanelli.

Mr. CAMPANELLI. Yes, sir.

Chairman BACHUS. Chief operating officer of Sovereign Bank, New England Division, and Vice Chairman of Sovereign BankCorp.

Mr. CAMPANELLI. Yes.

Chairman BACHUS. So we welcome both of you.

As you probably heard the first panel, and I think they both referred to some of their discussions with you all, and I think were very favorable of some of your activities. So you're welcome to this hearing.

Ms. Finucane, we'll start with you.

STATEMENT OF ANNE FINUCANE, PRESIDENT, NORTHEAST BANK OF AMERICA CORPORATION

Ms. FINUCANE. Good morning, and thank you. Thank you, Chairman Bachus, Ranking Member Frank and the Members of the Committee.

Can you hear me?

Chairman BACHUS. Bring it a little closer. It won't sound natural, but it is.

He keeps saying I don't sound natural.

[Laughter.]

Chairman BACHUS. It doesn't do anything about accents.

Ms. FINUCANE. Good morning, Chairman Bachus, Ranking Member Frank, and Members of the Committee on Financial Services. My name is Anne Finucane, and I serve as the president of the Northeast region for the Bank of America. Ken Lewis, our president and CEO, has asked me to convey his regrets. Since he is attending our company's previously scheduled board meeting, he was unable to be with us here today. He has asked me to testify on his and our company's behalf.

As a brief preamble, I'd like to state that as a result of the merger between Bank of America and Fleet Boston Financial, Massachusetts and the rest of the Northeast now serve as a key operational base for one of the country's premier financial services companies by almost any measure: number of customers, number of

people employed, distribution, products and services, earnings and philanthropy.

Going into this transaction, we understood the important role that Fleet had played in fueling the local economy and enhancing the vibrancy of our communities as an employer, a lender, an investor, a philanthropic donor, a sponsor, and a community partner. As Bank of America, we are committed to continuing this important leadership position.

In negotiating this merger, both Chad Gifford and Ken Lewis agreed upon unprecedented initiatives in the area of employment and community development as well as philanthropy for this region's benefit. Each of these initiatives far exceeds what Fleet could have delivered if it had continued on its own separate path.

Now I would like to address the three primary questions posed to the Bank of America by the Committee.

On the question regarding jobs and employment levels, we take very seriously our commitment to maintain the premerger employment level of 17,900 full-time employees in New England. We believe that this, too, is an unprecedented commitment.

As of October 31 of this year, there were 15,000 full-time equivalent employees in New England, representing a loss or reduction of 2,900 associates, which essentially covers the merger-related layoffs.

We recently announced plans to add 400 employees in our wealth and investment management headquarters in Boston, and another 700 more in Rhode Island, for a total of 1,100 additional full-time equivalent positions in New England, all announced in a four-month period. That puts our New England employee total at 16,100 to date, or a net reduction of 1,800 since the time of the merger.

We will meet our commitments to the 17,900 employment number by 2006 relying on the same approach we have used to bring the 1,100 positions I just mentioned back to this region, which we announced in the last four months.

As for our Bank of America associates in the Northeast, we offer job opportunities, a comprehensive work life benefits program and new employment benefits previously unavailable to our Fleet associates. We are on our way to returning to premerger levels of employment.

On Question No. 2 regarding our commitments: Bank of America may be new to the Northeast, but like Fleet, the bank has a long tradition of growth through mergers. And at the heart of our experience is this philosophy: A strong business depends on a strong local community and a strong local business climate. We believe that we have an outstanding track record of putting this belief into action; and just by way of example, we are demonstrating our commitment to the Northeast by targeting $100 billion of the new $750 billion community development goal to this region.

During the course of developing these goals, we met with more than 100 community groups; and much of their input is reflected in the development of these goals. A great deal of progress has been made; and just to use Massachusetts as an example, we have committed to $406 million in loan financing, $18 million in grants for the Mass. Housing Partnership, $200 million in community development loans to the city of Boston.

We agreed to continue membership in the Federal Home Loan Bank of Boston to originate 3,000 mortgages over the next ten years with MAHA and to maintain a $20 million plus loan pool with the Massachusetts Housing Investment Corporation. And we have outlined our community development Massachusetts goals by category with an overall 24 percent lift over what we did at Fleet in the same time period.

In addition to our commitments to employment levels and to community development, we have committed not just to maintain but to increase our charitable giving in support of building healthy and vibrant neighborhoods. In 2004, Bank of America will have invested more than $9 million in philanthropy and community sponsorship funding for Massachusetts alone, which is more than we had done in 2003 as Fleet alone, focusing both on giving to large and small organizations, including a $1 million gift to Children's Hospital, a $1 million gift to City Year, $60,000 to the mayor's Main Streets program, and $200,000 each to Stride and the Lawrence Community Works program through our Signature Neighborhood Excellence Initiative.

And if there are still concerns, consider this: that each bank on its own, Fleet and Bank of America, earned outstanding CRA ratings and exceeded our community commitment goals as individual banks. Bank of America is the number-one SBA lender in the country and the number-one SBA lender to minorities. We are the number-one mortgage lender to minorities as well.

In 2003, Bank of America spent more than $620 million with diverse suppliers, and we expect to exceed that goal in 2004. Just last week we were named the top corporation for multicultural business opportunities of 2004 by more than 350,000 diverse business owners.

Finally, on Question No. 3, the adequacy of current laws, let me turn to the merger approval process in connection with the Fleet/Bank of America merger.

We filed applications or notices with four federal agencies, more than 30 state agencies, several self-regulatory organizations, and more than two dozen foreign countries. We participated in four public hearings in three different states involving more than 200 witnesses, and we responded to nearly 400 comment letters.

The approval process spanned more than five months, with the last approval received the day before our scheduled merger date. Certainly an exhaustive process, but one we can appreciate.

In our opinion, there are adequate measures in place to ensure that a bank honors its public pledges. Further, we recognize that the more favorably customers view their bank, including its role in the community, the more likely we are to retain and grow their business. This is a premise underlying the way Bank of America has operated across the country.

In conclusion, I'd like to emphasize one key fact: that the new combined bank, the new combined company, enables us to do more for the New England region, more for Massachusetts, than Fleet Boston Financial could have done as a stand-alone company.

Thank you.

Chairman BACHUS. Thank you.

[The prepared statement of Anne Finucane can be found on page 277 in the appendix.]

Chairman BACHUS. Mr. Campanelli.

STATEMENT OF JOSEPH P. CAMPANELLI, PRESIDENT AND CHIEF OPERATING OFFICER, SOVEREIGN BANK, NEW ENGLAND DIVISION, AND VICE CHAIRMAN OF SOVEREIGN BANKCORP, INC.

Mr. CAMPANELLI. Chairman Bachus, Ranking Member Frank, Congressmen Capuano, Tierney, Lynch, and Members of the Committee, on behalf of Sovereign Bank New England and Sovereign Bancorp, I'd like to thank you for this opportunity to speak before you this morning. Along with my written remarks, I have provided written testimony for the record.

During the next few minutes, I'd like to address the questions you have posed concerning the acquisition of Seacoast Financial Services Corp. with regards to jobs, benefits of the acquisition, and commitment to our community.

Since Sovereign entered the New England marketplace almost five years ago, due to the merger of Fleet and BankBoston, we have grown organically and through two acquisitions in the region: Seacoast Financial and First Essex Corp. Our acquisition strategy has been to gain a presence in key markets and to better serve our existing customers and prospects.

Sovereign recognizes the critical importance of job creation to the continued development of our communities. Putting aside the impact of our acquisitions, Sovereign employment levels have grown in Massachusetts by approximately 4 percent per year. We are proud of the fact that we continue to grow our core job base here and anticipate continuing to do that in the future.

Prior to the Seacoast acquisition, we projected that approximately 74 percent of the employees would be retained. All branch staff and other personnel working with customers would be included in those retained.

We realize the potential hardship the loss of a job can have on an individual and their family. Sovereign promised that we would consider former Seacoast employees first in filling any open positions throughout our company. Following the acquisition, we retained 74 percent of Seacoast's positions.

Those not offered positions received a severance package, which includes severance payments, continued health, dental and life insurance benefits for up to one year, job training, and outplacement services.

To date, we have placed 20 impacted employees in jobs at Sovereign, and we will continue to give former Seacoast employees priority in all future hiring.

There are benefits as a result of the acquisition for the former customers and communities. Our customers receive a wide array of products and services previously not available to them. They have access to additional branches and ATMs; they have customer-friendly products, including totally free checking for both retail and small business customers; and they have additional conveniences of enhanced online banking products.

Businesses also benefit by having access to our extensive cash management products, trade finance, payroll and merchant services, saving them time and money.

I'd like to now address the community commitments that Sovereign has made.

Sovereign is proud of our track record of meeting or exceeding our commitments. I will also note that Sovereign received an outstanding ranking in our most recent CRA examination. In all of our acquisitions, we have not exited any communities, and we have experienced growth in every market we serve.

Recently we reorganized our management team to get closer to communities we serve, with local decision-making and local accountability. Every decision that relates to communities in Massachusetts is made in Massachusetts.

Here is a situation where one and one equals more than two. Prior to the acquisition, Sovereign and Compass Bank had made local commitments totaling $450,000 in charitable giving. After the acquisition, Sovereign has committed a total of $600,000 per year over the next five years, well over the previous commitments of the combined banks.

In addition, Sovereign has made an equity investment of $1 million in the Southeastern Economic Development Corporation in Taunton, exceeding previous bank commitments by 30 percent.

We had made commitments to Mass. Affordable Housing Alliance to originate SoftSecond mortgages to first-time home buyers. We have improved our ability to serve those customers by locating mortgage originators and agents in offices in Roxbury, Massachusetts.

In an effort to serve more low-income homeowners, we are committed to work with the Federal Home Loan Bank and Members of Congress to get direct access to affordable housing programs through the Boston Federal Home Loan Bank.

Sovereign has established community advisory boards in all the regions we serve. Through them we work collaboratively with our communities. We are planning on expanding our boards from two to five over the next year. We truly believe that a bank needs to listen to the concerns of the community, and must have a mechanism in place, such as advisory boards, to address those concerns.

Sovereign is proud of its record of being in and of the communities where we live and work. We look forward to continuing to provide exemplary products, programs and services which will strengthen our customers, our community, in turn strengthen Sovereign Bank.

Once again, thank you for inviting me to speak before you. I'm happy to answer any questions you may have.

Chairman BACHUS. Thank you.

[The prepared statement of Joseph P. Campanelli can be found on page 110 in the appendix.]

Chairman BACHUS. Ms. Finucane, what new benefits have come to consumers of Fleet Boston? What have they gained as a result of the merger with Bank of America? And what has the consumer response been to the new bank? I know Mr. Campanelli said that deposits in the accounts have increased.

Ms. FINUCANE. Well, through research, we have discovered that more than 20 percent of our customers, the former Fleet customers, see the new bank more favorably.

Chairman BACHUS. And pull that mike up, if you would.

Ms. FINUCANE. I'm sorry.

So our customers see our bank more favorably since we announced the merger and since they've started to interact with us as Bank of America.

We have increased net new checkings by more than 100,000, new checking accounts; same on savings accounts. So I think both the economics and the syndicated research would indicate that that was favorable.

Specifically, why do they see it more favorably? I think because there is a national network of ATMs and branches that they can go to across the country at no surcharge. We have free checking, free online bill pay, a better suite of products in terms of mortgages, and frankly we can put more money into the communities in which we work and live.

Chairman BACHUS. Those are new benefits. And you did mention putting money into the community, the $1 million to Children's Hospital and others, philanthropic. Has that increased, your philanthropic giving?

Ms. FINUCANE. Yes. We will increase our philanthropic giving. We just made a commitment for the next ten years that we will put $1.5 billion into charitable giving.

So on a combined basis, what we're talking about is, the charitable giving Bank of America did, the charitable giving that Fleet did, combined, will over time be 40 percent improved on that combined basis; and immediately we just saw about a 10 percent improvement in the last year.

Chairman BACHUS. I see.

What new benefits have former Fleet Boston employees been provided as a result of joining Bank of America, those that have retained their jobs?

Ms. FINUCANE. First of all, they have greater job opportunities, stronger training programs.

But just to give you two ideas of two specifics, we have a home ownership program for our associates that allows—it's basically a forgiven-loan program. We give $5,000 to an employee toward the purchase of their home, and if they stay with the company for five years, we forgive that loan entirely. During the course of that five years, they're just paying on the interest, anyway. We also have some fee waivers that go with that. Tree hundred and nineteen of our former Fleet employees have taken advantage of that just since May of this year.

In 2005, we will introduce to the Bank of America program, to our Fleet associates, now Bank of America associates, a child-care program for lower-paid employees. Individuals that make $34,000 or less or have a household income of $60,000 or less will get $175 per child per month credit toward child care.

Chairman BACHUS. Okay. You know, you're talking about a large financial services corporation like Bank of America. How are you working to uphold the CRA requirements to deliver products and services to the LMI communities on the local level?

Ms. FINUCANE. Well, thank you for asking the question, Chairman Bachus, because I know this is sort of the gist of many of the comments made by the community groups.

First of all, I think we appreciate the fact that Bank of America is new to the region; and to Congressman Frank's point earlier, sometimes, if it's unfamiliar, organizations can cause some trepidation.

I'd point again to the fact that both banks previous to this merger had outstanding CRA ratings. I would point out that both banks previous to this merger made commitments and then exceeded them in terms of the total goals.

I would say that—and the community groups are aware of this—we have taken $750 billion. We've broken that out in terms of the Northeast. For instance, Massachusetts knows that the number is $8.4 billion for the next three years. We've broken it by category. We've talked to many community groups.

I really think the gist of the problem that they see is they would like a lot of—we will report out on every item that they would like to know at the conclusion of a year. First of all, we will report out, not only by the state, but by metropolitan statistical analysis by each of the categories. It will include the LMI information, minority information to the degree it's disclosable.

You also have HUMDA data, you have our CRA filings each year, and you have our filings with the SBA. That in total is very specific, but it isn't—so we set the goals, and the reporting happens at the conclusion of the year. At the conclusion of the year, if there are any problems, we get together with our community groups and work to solve them.

Chairman BACHUS. Thank you.

And I think you've targeted $100 billion for the Northeast?

Ms. FINUCANE. $100 billion for the Northeast over a ten-year period, but that's such a large number. We're trying to deal with it now in three-year increments, because I think it's much more tangible; and for the State of Massachusetts, it will be $8.4 billion, which is a 24 percent lift over what Fleet did.

Chairman BACHUS. What is that about the market president network working with—what was that? I had read that.

Ms. FINUCANE. We have market presidents in each of our states, and in fact, using Massachusetts again as an example, we have a Massachusetts state president, and then we have regional presidents in Springfield, Worcester, Boston and Cape Cod. Each of those works with our people in CRA and in community development to look over the goals and to make sure they're met on a business level.

It's more than just commitment. You have to make these goals with the businesses. You have to reach out to the retail group and the middle market group and the real estate loans to make sure each of these happen, and they oversee that process on a local basis.

Chairman BACHUS. Are you making strong local community alliances?

Ms. FINUCANE. Yes. As I've said, we've met with more than 100 community groups.

Chairman BACHUS. Thank you.

Mr. Lynch?

Mr. LYNCH. Thank you, Mr. Chairman. Anne and Joe, I want to thank you both for participating in this hearing. I just have one brief question for each of you.

Anne, I know you've gone over generally some of the employment numbers, but could you take me through that again? Just where are we now with employment? It seems to be, you take one step forward, one back, but I know that's going to fluctuate for a little bit.

And more importantly, what are our projections for, say, the next two years going forward with employment?

Ms. FINUCANE. Thank you, Congressman Lynch.

We, premerger, announced—by the way, I use this word "FTE," full-time equivalent. That sort of eliminates the issue of part-time/full-time. About 80 percent of our employees are full-time, 20 percent part-time. Full-time equivalent means, if there were two part-time employees, they are one full-time equivalent.

So we had 17,900 full-time equivalents, premerger.

The impact of the layoff in New England was 2,900 full-time equivalents. We have already hired back or have announced the hiring back of 1,100 of those, so that gets us down to, we still have a gap of 1,800. But we've done 1,100 in four months; I think it's reasonable to think we can do the next 1,800 in two years.

The way we've done it is, we will look at many things, but two primary ways we've gotten back just the 1,100 is by moving the wealth and investment management group to Boston. That is one of the four major divisions of the company. It has six business units that report up to it, but it's one of the big divisions of the company. There are four big divisions.

We've headquartered that in Boston, so we can expect that we will continue to grow the population of an employee base there, which are very well-paying jobs. We put 700 people, actually 700 full-time equivalents, 900 people that we will hire in Rhode Island and southeastern Massachusetts in a center that we've put down there, a processing call center in Rhode Island. So I think it's the combination of those kinds of initiatives: growing business and then bringing business here.

Mr. LYNCH. Just one follow-up.

I know that Maureen Flynn had mentioned in her testimony that we had one CRA specialist from Bank of America to handle both Massachusetts and Rhode Island.

Ms. FINUCANE. Right.

Mr. LYNCH. Is there any chance that we might be able to get another person hired to take care of Massachusetts, one person handling Rhode Island?

Ms. FINUCANE. Well, she's talking about a relationship manager. We actually have about ten people that handle the territory in the areas of tax credit or lending or mortgage origination. So she was talking about a relationship manager.

I think what's reasonable is that we look at those ten people and see if there's a better distribution in terms of relationships.

There was also an issue, I know, that Florence raised with lenders in Boston for the SoftSecond program. We agree with that, and we're in the midst of hiring.

Mr. LYNCH. Terrific. Thank you very much.

Joseph, if I could ask you, could you elaborate a little bit on the plans of Sovereign Bank post-merger to meet or expand its CRA commitments in struggling communities? I've got a few of those. And also if there are any job-enhancement possibilities specifically for people living in those communities.

Mr. CAMPANELLI. Yes; thank you, Congressman.

Many of the discussions we had in our community advisory group is how we can do a better job. One of the things that came out of those discussions is a need for us to better deliver our bank products to all of our communities.

The catalyst behind our reorganization was to put senior executives in those communities that can make decisions and are held accountable for the entire bank product distribution, whether it's CRA, consumer, small business, or general corporate banking.

That has really allowed us to find opportunities, such as Roxbury Technology, where they had a struggling company; had a great opportunity to provide products to Staples. We partnered with Staples, provided a working-capital line. Ten new jobs are added in Roxbury, and we believe that's only the beginning. It's a model that we're looking to expand throughout all our footprint.

We're so supportive of it, we've actually moved our entire purchasing relationship from a current provider to Staples, because we feel Staples gets it. They want to look at ways you can do a better job of creating jobs in the city tied to affordable housing.

It really is an integrated approach on how we work with the community groups that are out there, the development agencies, some of the state and local programs, and with our own team members in those markets, making a difference.

Mr. LYNCH. Thank you, Joe; thank you, Anne.

Mr. Chairman, I thank the Committee for your courtesy to me. I do know that Senator Nuciforo and also Representative Quinn are going to testify on the next panel. Unfortunately I have to be somewhere else, but I will follow up on both of those legislators after the hearing, after their testimony; so we'll touch base then. Again, thank you, Mr. Chairman.

Chairman BACHUS. Thank you.

At this time, I recognize the Ranking Member.

Mr. Frank?

Mr. FRANK. Thank you, Mr. Chairman.

I want to say, as I said before, there has been unusually good testimony from all of the witnesses, and I appreciate it.

I want to comment particularly on the choice of one witness. There was one report that somehow the fact that Ms. Finucane was testifying instead of Mr. Lewis was a problem for the Committee. Quite the opposite is the case. It would be very odd if we were simultaneously to complain that there was not enough local input, and an objection when we got it.

[Laughter.]

Mr. FRANK. The fact is that Ms. Finucane has been, I think, a very important player in understanding. And she's in the middle; she's conveying messages both ways. There was no problem at all, it seems to me; in fact, I think it is preferable.

We've had a chance to talk to Mr.Lewis; people seem to have forgotten, those who commented on that, that Mr.Lewis made a special trip up here in September when we were particularly distressed about employment. He visited Representative Quinn, Senator Nuciforo, Representative Capuano, myself and representatives from the offices of my colleagues; so we regard this as an entirely legitimate and useful approach.

Let me say, here is the situation with Bank of America. We have a major national economic entity entering this region. They come in, and they buy up what had been a major regional entity.

That's a fact that inevitably gets people nervous. It doesn't mean anybody's a bad guy or a bad woman; it's just that's the kind of thing that happens.

It also, though, is very important. Clearly, we're going to have to learn to live with each other. I think we ought to be ready to do that. People have said, well, you know, if it was up to us, Bank of America wouldn't be coming in here.

Well, if it was up to some people at the Bank of America, maybe I wouldn't be in office.

[Laughter.]

Mr. FRANK. I mean, we didn't pick each other. But in the interest of the people we serve, some of us in the electoral process, and others through the economic process, we're going to work together. There will be some bumps and grinds, but I think we are moving forward, let me say; and I think it's important to both give credit where it's due, but then complain where you haven't been satisfied.

With regard to housing, Bank of America has been extremely responsive. We've already noted that with the Massachusetts Housing Partnership cashing out, there was a state obligation that they find some money, but they turned that into a cash grant at our request, and that was helpful.

Same thing with the affordable housing program, they took strides to do that; working with the Mass.Affordable Housing Alliance. Ms. Finucane just acknowledged that they need to do better in Boston, and we look forward to that.

On the other hand, there have been some unsatisfactory conversations elsewhere, and I must say—maybe it's a cultural difference—why there is resistance to appointing a state advisory board, I do not understand.

I must tell you, give you a little free political consulting advice. If I could make some people who were unhappy happy by appointing an advisory board, you'd have that board appointed in about a minute and a half. I never heard of anybody that ever died from having an advisory board.

And the fact is that I would hope people would understand, you're talking about constructive people. These are not barn burners; these are people who are thoughtful, who understand economics, and I think it is important to note that in all the differences, neither side has accused the other, it seems to me, of being economically unrealistic. So I would hope we could work within that framework.

I then want to turn to the jobs question. Now, that's been important for both banks, and that was one of the issues that we talked about.

Housing, I think everything is good. In some of the other areas, we still have some concerns and some further work to be done; and I think the request for specificity, I would say to the Bank of America, is a perfectly reasonable one.

But let me just touch on race. This is one of the advantages of Ms. Finucane. Anybody who has lived in Boston for the last twenty years or more knows we've had this terrible situation with regard to race. That is significantly improving, and a lot of us have worked to improve it.

But there's a residual tension, and anybody who approaches the race situation in Boston shouldn't be surprised when there is a show-me attitude, a demand for specificity, because it's part of the heritage that we're all working to overcome.

Then the other area is employment. I was disappointed, and said so in September, when I thought that job losses were coming that had not been anticipated. I agree that since September, with the three announcements, first moving wealth management here, then opening the call center in Rhode Island, which is near my district, in southeastern Massachusetts, as is my colleague Representative Quinn from there. The city of Fall River, for example, is in the Providence SMSA. So when you put good jobs like that in East Providence right next to Massachusetts, you're doing a good thing for southeastern Mass. as well. I appreciate that.

I think we also ought to be clear, there was no legal requirement that Bank of America pledge to keep its employment commitment. That was something that they did and we were pleased to see. Some of us would have been more critical. I cannot say that the landlords here in this institution, the Federal Reserve, would have paid a lot of attention to us. I mean, if we had been disappointed in the job thing, I must tell you that it is not my approach to say, well, these guys don't like it; that's the end of that merger. But we do have that. It is important.

So I appreciate the steps that have been taken to begin to move jobs back, and I guess I want to say, at this point I am confident that Bank of America means what it says. Obviously—and I think it's a year from now we're talking about, January of 2006, is that the date that we said by which there would be the equivalency?

Ms. FINUCANE. Well, 2006 in——

Mr. FRANK. Not necessarily January? Sometime in 2006?

Ms. FINUCANE. It's reasonable to expect that we would, before the middle of 2006——

Mr. FRANK. Obviously, that's going to be critical to the relationship. I must say, if we can get back then, then there will be some—I think that will be, as I said, very helpful to the relationship.

We did have, with regard to Sovereign, an inevitable job loss because of Seacoast. With Sovereign, there was much more overlap. I guess one of the reasons we were concerned, we were surprised to some extent, there was no Bank of America/Fleet overlap; Sovereign and Seacoast had a considerable overlap. But I do appreciate Sovereign's reaching out on the Community Investment Act; and as I said, they have been working with us in housing.

Let me just close with one other kind of general comment, that I hope my friends in the banking community will listen to. I'm not

going to talk about your bonuses this time; I did that last week in New York.

But the question we have is this: Clearly, the merger, Sovereign buying up Seacoast, Bank of America buying up Fleet, those are in the interests of the overall economic efficiency of the country; and I believe that they are.

Productivity goes up. Technology and globalization, all those things, argue for these kinds of mergers. But we have this problem in this country. Alan Greenspan said in April of 2004 that the good news was that productivity was going up, but he noted—this is to the Joint Economic Committee—that all of the gains from the increased productivity were inuring to the owners of capital, and none were going to compensation paid in the form of wages. I don't think that is sustainable in terms of equity, and I don't think it's sustainable economically.

We're now looking at retail job figures for this holiday season, and what do we see? The luxury goods are going off the charts in the upper direction, and the bottom is falling out of some of the low-end.

Now, I must say, I tell my colleagues, the fact that Wal-Mart isn't doing well doesn't cause me any great heartburn, for reasons of their antisocial approach in so many ways. But economically, here's the problem: The inequality in America is, I think, beginning to have not just negative social effects, but negative macroeconomic effects, because you cannot sustain an economy where a large number of people don't have that kind of money to do things.

So that's the context in which corporate responsibility has to be explained.

Yes, I understand that this merger, that this purchase by Bank of America of Fleet, the purchase of Seacoast by Sovereign, these are in the overall macroeconomic interests of the country; but we cannot continue to ignore the distributive effects, because that's neither socially acceptable nor, I think, economically useful.

So that's why we say to Bank of America, please try to maintain this economic situation, the job situation, because it's not simply what it does to the bottom line or to the gross domestic product that counts; we need to have some concern about equity.

As I said, I just hope that it will be understood in this context. Nobody up here disagrees with the important role that banks play in our free market system, but we hope that we would get a significant understanding that increasing productivity and enhancing the profitability of stockholders by itself is not enough; and if that's all that happens, you're going to see a movement in the country towards a kind of economic disparity that, as I said, I disagree with in terms of values, but I think has some economic negatives.

Mr. Chairman, I've overused my time. I appreciate the indulgence.

Chairman BACHUS. Thank you. I would like to confirm that when you're disappointed, you do say so. I think that's partly a Massachusetts thing.

[Laughter.]

Chairman BACHUS. Mr. Capuano?

Mr. CAPUANO. Thank you, Mr. Chairman. I wasn't disappointed in the baseball scores this year, so that's about it.

Mr. Chairman, I have a few questions. Before I do, I want to echo what Barney said about Ms. Finucane. She has a great reputation. We're looking forward to her running this bank.

And I'm hoping that things smooth out because of your knowledge of the region and the different culture that we may or may not have. I have no proof whether we do, but I know our culture, you know our culture; if it is different, I'm hoping that they listen to you.

I'd also like to thank Mr. Campanelli. Again, as I said earlier, I think Sovereign is one of the banks that has understood that. They're not a local bank, and I think that his predecessor, Mr. Hamill, and Mr. Campanelli both have brought a knowledge of the region that their bank has heard. As I said earlier, I think with the Bank of America, the test is still out.

I just want to say for myself, the things I've been most concerned with this merger are the lack of details that people can look at and say, okay, this is what we can expect. If we don't like it, fine; I can see a reason people will disagree, and some people will never be satisfied. I may even be one of them. But without detail, there is nothing but questions and distrust; and for me, that's been the biggest issue.

Part of that lack of detail has also been the suspect timing of some of the announcements that may or may not have happened otherwise. The fact that it just so happens you announced 300 jobs here in Massachusetts last week when we're having a hearing, it's nice, but it does raise questions. And I wonder, do we need to have a hearing every week to get good news?

And the fact that we just get a three-page strategic business plan this week, again, it's a nice plan, it's a good beginning; but do I have to have a hearing next week to get the details?

So for me, it's not so much that I'm capable—I think anyone here is capable of questioning the substance or the motivation, as much as we're not sure; and it just seems to have taken a long time to make progress on that issue.

And I guess most notably, and I know that you've heard my questions in the past, when it comes to the employees, I understand that when mergers happen—I think we all do—in the real world, that people lose their jobs. We know that. We understand that. We understand the result of it.

But what I'd like to ask now, as I've asked in the past, without getting down to every single individual job, can you tell us right now, are the bulk, the major, the 99 percent of the merger-related layoffs, are they done, or do we have more to come?

Ms. FINUCANE. They're done.

Mr. CAPUANO. Thank you. I think that's important for the employees to know, especially in this season, for them now to go to Christmas. Understanding that individuals can continue to be laid off, and that five people, ten people are not the bulk, I really appreciate that statement; and I think had it been made earlier by others, that it would be done when we had X number, I think that would have made a lot of employees in the region a lot more comfortable.

Relative to the plan that was released last week, I saw last Sunday, again, it is a fine first step. The numbers I'm not questioning;

the intent I'm not questioning. But are there plans by the bank to work out more detail, or is that it?

Ms. FINUCANE. There are more—should I answer that now?

Mr. CAPUANO. Please.

Ms. FINUCANE. Yes.

First of all, in order to meet the goals that we've set, you've got to meet with community groups, and you've got to work through with them. The production itself, often what happens—in the case of MAHA, they helped us with true production on the SoftSecond program. In some other community development groups, they can help us with true production.

In many cases, we have to deliver it through our banking centers, our real estate, ourselves; and we're looking for partnership in terms of identifying those opportunities. That goes on, not just when there's a hearing; it goes on every day, in every part of our country, including throughout Massachusetts.

I think the real issue is—and we will report on that in as thorough a manner as I think anyone could want at the conclusion of a year, and that's been the Bank of America practice for the last few years. It's worked very well in terms of they exceeded their goals; they got an outstanding CRA rating. We will do the same here, so that I think the specificity will all be there. It isn't prospective; it is reported on an annualized basis.

But that doesn't mean that we're not meeting with every community group that we need to meet with in order to create that production.

Mr. CAPUANO. But does that mean that the three-page document that we have, will I see a ten-page document or a 20-page document in the next month, six months, some period or do I have to wait until we're now working backwards to see whether you met those numbers?

For instance, the questions I asked the last panel, who's going to get the money? Where is it going to go? What's your definition of affordable housing? How much is going to be leased? How much is going to owned?

All those questions that are really too detailed to deal with now, do we expect to see that, or are we going to have to wait for various reports?

And I understand all the reports that banks have to do, and that's why they're there. Do we have to wait for all those reports to come in, and look retrospectively to say, oh, you met them? Or can all the organizations, and more importantly, the constituents I represent, who are looking for these things, will they be able to say, okay, we know what the bank plans on doing this. Are we going to work with the bank to help them reach their goals?

Ms. FINUCANE. I think it will be clear how to work with us. I think that what you're hearing from—and let me use MACDC as an example—the specificity in which they would like us to lay out by category, by microcategory, prospectively we will not be doing.

What we will be doing, though, is, remember that—and I don't mean to sound like a broken record here. Both companies had outstanding CRA ratings. Both companies report out by category, by LMI, by minority, by region, by MSA, on an annualized basis; and

then we of course report with HUMDA and SBA, which we're the number one SBA lender.

We're also at 27 percent, I think it is, of LMI mortgage lending in Massachusetts. This stuff is going on constantly, and we will be working with the community groups to make sure that we can meet those goals.

Our job is to maintain stronger relationships with even the people that were here on this panel on a go-forward basis in order to create production.

Mr. CAPUANO. I appreciate that.

Mr. Campanelli, my last question. I presume you sat in on some of the negotiations relative to Sovereign, both the original ones and the renegotiations?

Mr. CAMPANELLI. The vast majority.

Mr. CAPUANO. Did those negotiations hurt you either financially or socially or competitiveness?

Mr. CAMPANELLI. No; and it depends on how you characterize negotiations. We viewed them more as conversations, looking at where we can do better, what was available within the community, and how best to accomplish the objective and the goal.

Mr. CAPUANO. Thank you very much.

Chairman BACHUS. Mr. Watt?

Mr. WATT. Thank you, Mr. Chairman.

I was tempted to pick up on Mr. Capuano's statement and suggest that we might have a hearing in Charlotte if we can get three or four hundred jobs created there; but I won't go there.

[Laughter.]

And Barbara says she wants one in California.

Mr. MEEKS. You can't bypass New York.

Mr. WATT. Well, you already said New York is the center of the universe for banking, so it's not a big thing.

Mr. Campanelli, I'm going to ignore you for a little bit, but it's not because I don't like you.

Mr. CAMPANELLI. That's quite all right.

[Laughter.]

Mr. WATT. It's because you don't have any operations in my area, so I'm going to Ms. Finucane here.

Process: The testimony of the witnesses on the first panel, you've made some written commitments. There are some areas where you have not made written commitments.

First of all, where there is no history of an apparent transformative effect, as I have the benefit of having in my community, do you view it as something that's important to have written commitments on other things, and will there be ongoing efforts to get to written agreements, commitments, or is it just inconsistent with your philosophy, you'll wait until the end of the year, you'll report, you'll exceed maybe, probably, all of what you might have agreed to do in a written commitment if you had agreed to do it in a written commitment; but is there a philosophical objection to getting to written agreements of some kind?

Ms. FINUCANE. First, let me address the issue of the panel.

We're familiar with the panel and have worked with each of the members of the panel in the past, and we will continue to work with the members of the panel. We respect their point of view. We

respect their issues. We think that we can meet the need and continue a relationship without a written agreement.

In the past Fleet has had written agreements. I will tell you honestly, in some cases, while we exceeded our overall goal of, in our case it was $14.6 billion, in some cases there was a written agreement of certain production in a certain geography in a certain category that probably over a two-year period we should have adjusted, but one gets locked into these written agreements, and there's very little flexibility.

Secondly, Bank of America has had a very good track record, without the written agreements, of delivering on everything they had laid out. This isn't just rhetoric; it's a matter of the record. And it isn't just our record; it's record by regulatory bodies and by law.

So I think that for all of those reasons, we feel pretty comfortable.

I appreciate the fact that Bank of America is new to the region, but many of us in this room and that are working with the community groups are not new. I think if we were good for our word before, we are good for our word now. Also, our record shows it.

Mr. WATT. I'm probably the last person on this panel that ought to be trying to pin you down on this, but I'd have to say you did a good dance for me there.

[Laughter.]

Mr. WATT. Do I take that to mean that there will not be additional written commitments? I mean, it sounds like you've made a commitment on the second mortgage fund. You've made public pronouncements on the lending front.

Ms. FINUCANE. Right.

Mr. WATT. For CRA purposes, where apparently there has not been a written commitment of any kind, small business lending, employment composition, racial composition, procurement, a critically important area; do I understand the bottom line to be, there's not going to be a commitment? It's a "Trust me"?

Ms. FINUCANE. No, it's not a "Trust me."

First of all, we have made some commitments. The Bank of America has made a commitment to, over the next few years—and I'll give you a report card on this year—of reaching a 15 percent goal of minority procurement.

This year we were—or 2003, which was the last full year we could report on, it's 9 percent. That's 620——

Mr. WATT. That's a global commitment?

Ms. FINUCANE. Nationally. But I'll get to——

Mr. WATT. That's a national commitment, and what I'm hearing from the local folks here is, we can't do this globally; we've got to do it community by community. Is there a problem with that?

Ms. FINUCANE. Well, no; but if I could, in the Northeast alone, just by way of example, Fleet had, in 2003, spent $50 million on procurement with minority vendors. In the Northeast, Bank of America did $100 million.

So I think it's reasonable to expect that we will do better as a combined bank than we did as Fleet alone, and that is in the Northeast itself.

In terms of statistical numbers, which I hesitate to refer to—and I do have them on a national basis; I don't have them for Massachusetts, although we have had conversations with Juan at the local NAACP on numerous occasions—our numbers, and this is the September filing, our total work force was 68 percent women, 42 percent people of color. And to use that, sort of another outlook at that, for the vice-president level and above, 46 percent were women, and 22 percent were minority.

So from a global perspective, those numbers are very good. I don't have them for Massachusetts in any kind of recent form.

I need to state that we deeply appreciate the need for opportunity for all our employees, and we seek to have a diverse work force that reflects the communities in which we work and live. That's good for business.

We have a diversity council; we have a hiring practice that seeks a diverse candidate base for almost any job that we have. Fifty percent of our people that we've hired in our branches in the last two years, 50 percent of them are bilingual. I cannot tell you what an effort we try to make in terms of diversity, not only in terms of our employment base, but reaching out to the community.

Mr. WATT. I think the concern is, you're talking about performance, and other people are asking you about commitments; and those people are people who don't have the history, necessarily of—I mean, I hope that you will consider, at least in the procurement area, and you said there's somewhere written down, a 15 percent commitment.

Ms. FINUCANE. There is a commitment to 15 percent.

Mr. WATT. In this area, or globally?

Ms. FINUCANE. Globally. But I want to give by example, just to use the Northeast, which was in the last few weeks the most narrow we could break it down, Bank of America spent $100million on the diverse supplier list, where Fleet had done $50 million.

So frankly, it's clearly an improvement and one that I think will bode well for the future. We're going to do it for Mass. Will we do it for each state? I don't think so. Will we do it by region? We will try to do that, to give some specificity.

In terms of agreement, just a final thing. Sometimes this is an issue of language. Each of the people that we deal with in terms of community groups, in essence, there's a form of an agreement with many of these groups because the community groups help us deliver on our promises. But it's a focus on production rather than a prospective ideology.

Mr. WATT. Thank you.

Chairman BACHUS. Mr. Meeks?

Mr. MEEKS. Thank you, Mr. Chairman. I'll be brief, and I think I'm learning from some of the Massachusetts people here. All politics is local, and I don't know whether you're equipped to answer these questions. Just a couple questions real quick now, but they're going to pertain to New York.

Ms. FINUCANE. Okay.

Mr. MEEKS. I understand that Bank of America is in the process of building a large tower in Manhattan very shortly.

Ms. FINUCANE. Yes.

Mr. MEEKS. So my question is, do you know whether or not Bank of America has, or will have, a minority business component to go along with the construction of that building, where there will be minorities that will be involved on the construction phase of the building?

Chairman BACHUS. I thought he was going to ask for two more stories on the building.

[Laughter.]

Ms. FINUCANE. Well, we are not responsible for the actual construction of the building. That is—I forget the name of the firm. I'm sorry; I don't recall the national developer's name, but we are not handling the construction of the building.

Mr. MEEKS. But they're contracted by you? It's been my experience in New York, any time we've had a major corporation, for example, with American Express, after 9/11 they were redoing their building, and there was another contractor, but they told their contractor they wanted to make sure that there was a minority business component of the construction of the building. Because again, it reflects upon them.

Ms. FINUCANE. Right.

Mr. MEEKS. So I'm wondering if there's a similar type of at least a direction in which the Bank of America is moving with reference to this construction of this large tower.

Ms. FINUCANE. Well, we certainly support opportunity, and given that we're neither doing the construction nor are we the developer of it, we're a few sort of businesses removed; but I will look into that. I'm sorry; I just can't——

Mr. MEEKS. I understand. Please look into it, because I can tell you that a number of us, we'll be reaching out to you, but we'll also be reaching out to the contractor.

Secondly, the local concern that I have, Fleet had a large presence in my district, and was doing a number of things there, had a number of individuals that were employed there. I think totally, though, Bank of America at the time only had about 40 to 43 people that were employed in the district.

I was wondering whether or not, with the merger, whether or not Fleet will be looking to do additional business in a district like mine—I'm in southeastern Queens, which is basically really kind of a middle-class community. So I was wondering whether or not there's any plans to expand in communities like mine since this merger, but particularly since Fleet had such a large presence within the district.

Ms. FINUCANE. Well, Bank of America has not only the capacity but the desire to build out in New York City in a more aggressive way than Fleet would have been able to do. So we have already opened six new banking centers in the Manhattan area; we're looking at other opportunities throughout New York City.

I can't speak with specificity about your district, because I don't know whether we have a banking center planned; but I can tell you that we are looking to expand our presence in New York. Unlike New England, we do not have a number-one presence in terms of market share in New York, and we're eager to get there.

So I think that we would be most anxious to continue a dialogue with you.

I know that you can expect that in terms of employment levels, philanthropy and community development, those will all improve in the next months and years to come.

Mr. MEEKS. Very good. I definitely would like to have that discussion, because unfortunately what has happened—and Fleet was the one that was really kind of taking up some of the slack—there was not the kind of presence given the economic impact that the community had, particularly on a commercial level with commercial development in the community. So I would love to be able to follow up with you to have a conversation with regards particularly to southeastern Massachusetts and Queens.

Ms. FINUCANE. Thank you.

And Congressman, I would like to address a comment you made earlier in your questioning of the community groups about financial literacy. Just as an example, we've put more than $6 million into the issue of financial literacy. I think that most financial institutions, I'm sure Sovereign agrees, all of us feel that we need to do more in the area of financial literacy.

Mr. MEEKS. Thank you for that, and I'll be looking for you to come and help out some of our schools in southeastern Queens. Thank you very much.

Chairman BACHUS. Ms. Lee?

Ms. LEE. Thank you very much. Thank you, Ms. Finucane, for your testimony.

I'm glad to hear of the $100 billion commitment here as it relates to CRA. I'm trying to reconcile what I heard from Mr. Cofield in terms of, it seems like there's some disconnect here. He indicated that he only heard and had some refreshing discussion very recently, last week, with regard to what is taking place and what the plans and commitments are.

So again, going back to associating itself to Mr. Capuano's remarks, what is it going to take? The NAACP is a very important organization, and if they have only had recent discussions, what can we do to make sure that those discussions are real and continue? That's the first part of my question.

The second is, you mentioned that Bank of America is the number-one mortgage lending institution to minorities. Could you verify that for California for me, please? Because from what I remember, the last report that I saw was very dismal in terms of B of A and its lending to minorities; but I may be wrong. I'd like to verify that.

And thirdly, with regard to minority and women-owned businesses—I was a former small business owner; I was in business eleven years prior to coming to Congress—and just listening to Mel Watt and talking about written agreements, I had to have written agreements for everything I did; everything. There was no way I could function without a written agreement. Not just contractual, but every move I made had to have a written agreement. But I guess the rules are a little different for the small businesses.

But I'm looking at the breakdown that you provided subsequent to Congressman Frank's request with regard to minority and women owned businesses, and I want to ask you, is this a national chart that you provided? You had 511 African-American suppliers, 59 Asian-Indian——

Ms. FINUCANE. Yes.

Ms. LEE. That's national.
Ms. FINUCANE. Yes.
Ms. LEE. And 519 Hispanic. Last year is 9 percent?
Ms. FINUCANE. 2003.
Ms. LEE. 2003 is 9 percent, and you're hoping to get to 15 percent next year?
Ms. FINUCANE. Actually, no; I think it's in 2009.
Actually, in 2004, my guess is that our number, our percentage, will look lower, because the denominator will be higher, because we'll have the combination of Fleet and Bank of America. So the actual dollars spent with minority suppliers will go up; but because the denominator is bigger, the percentage will look slightly lower.
Ms. LEE. It just looks like a very small number of suppliers that you have nationwide, so I'll be very interested to see the dollar amount. Maybe the dollar amount doesn't support an additional pool of minorities.
Ms. FINUCANE. It is 625 for 2003.
Ms. LEE. 625——
Ms. FINUCANE. Million.
Ms. LEE.——million? Out of what, in terms of total suppliers.
Ms. FINUCANE. Out of the base, I'm sorry; I don't know. We could provide that to you.
Ms. LEE. Could you provide that for us, please?
Ms. FINUCANE. I can provide to you in terms of where we stood in terms of mortgage lending in California. In California, we're number three.
Ms. LEE. You're number three in California?
Ms. FINUCANE. Yes.
Ms. LEE. Do you have the breakdown in terms of the percentages.
Ms. FINUCANE. I don't here today.
Ms. LEE. Would you get that?
Ms. FINUCANE. Sure.
Ms. LEE. Because I just want to verify this, because the general—and again, it's based on the report we saw several, about a year or two ago, the numbers had seemed to be, for African-Americans 2 to 3 percent.
Ms. FINUCANE. Okay; we'll look into that.
Ms. LEE. It was very low.
Ms. FINUCANE. I do want to speak to Mr. Cofield's remarks insomuch as I'm sorry you only found them productive in the last week or so, but we have had conversations for the past year through the local NAACP and then an association, a coalition that's associated with it. So the dialogue continues.
Ms. LEE. I think his point was, though, it was not a definitive dialogue; it was finally beginning to become a dialogue.
Ms. FINUCANE. Right. Well, I appreciate that.
Ms. LEE. Thank you very much.
Chairman BACHUS. Thank you.
Mr. Tierney, it's your time to wrap up and summarize.
Mr. TIERNEY. Thank you. I feel a little bad for Mr. Campanelli here, but I don't think he feels too bad about it.
[Laughter.]
Chairman BACHUS. I haven't heard him complain.

Mr. TIERNEY. I haven't heard him complain, either; and I'm not going to break the pattern here.

It's safe to say that the folks that Sovereign has working up in the northeastern part of the state certainly are doing a great job, and we appreciate that, both with the local and small business community and the community at large; so thank you on that.

Ms. Finucane, I just want to nail down some aspects. It looks to me, or sounds to me, as if the concern that Bank of America has about specificity is that there will be some resulting litigation, or if not litigation, confrontation about not having met specific exact details down there; that you feel you can meet general firm things, but geographically there might be a little difference in the way things result or things like that. Is that part of the hesitation?

Ms. FINUCANE. No. Really, the hesitation is that I would say we would like some flexibility, because what happens—I don't think it will be litigation, by the way. It's a matter of, you seek some flexibility so that as you see opportunity, you can take it. And I don't mean just——

Mr. TIERNEY. I hear you, but can't you—how is it that Citizens can do it and Sovereign can do it, and the Bank of America can't come up with some sort of a written agreement setting forth specific goals with some flexibility in it? I think you've got smart lawyers and negotiators.

Ms. FINUCANE. I think we have it. Our written agreement is that we will do $750 billion; $100 billion a year and $8.4 billion in the next three years in Massachusetts——

Mr. TIERNEY. I think you know what I'm saying. It's not specific in terms of what the advocacy groups are looking for, nor even reasonably in that direction. Apparently Mr. Cofield felt that you didn't get to the national global figures until last week; so while you may have had a lot of conversations over the period of time, you're just getting to the global figures. There's some frustration that I sense on that, that you couldn't have gotten there sooner and down to a more specific level locally here at a quicker pace.

Ms. FINUCANE. I appreciate what you're saying, Congressman. We did provide these global numbers before. I think he was speaking about more specificity in terms of a relationship going forward, and an advisory role that he feels that the local NAACP could play. So I think he was speaking more specifically. The numbers have not been unclear.

Just to repeat, I'm not being—this isn't rhetoric. We have broken it by state, by category within the state, and the difference between what our previous commitment was and our current commitment, and what improvement that would be. I think we have a game plan for how we will get there.

What we haven't done is given, by category, a prospective by category, by geography, some of the categories that some of the community groups would like; and they're not all in agreement on what they would like.

Mr. TIERNEY. I understand. Is there any other aspect of your business that you don't look prospectively forward and set out some written goals with a certain degree of specificity?

Ms. FINUCANE. We have written out prospective goals with specificity. I think the disconnect is the kinds of commitments and the

kinds of reporting they would like us to do. We want to report it at the end of the year——

Mr. TIERNEY. Well, that wouldn't be very prospective.

Ms. FINUCANE. But the prospective is that we've laid out the categories, the increase in the categories, and the fundamental ways that we will get there.

Mr. TIERNEY. And they want?

Ms. FINUCANE. They want greater specificity. They basically want—I think to be fair, using retrospectively what we've seen other banks do or that we've done ourselves, it's very cumbersome. If you're doing it—the amount of money we will spend in these categories far outweighs what any other bank in the region will spend in these categories.

Mr. TIERNEY. Have you seen the models that the witnesses have talked about in terms of what Sovereign has done in reaching an agreement with them?

Ms. FINUCANE. No.

Mr. TIERNEY. Maybe it would be instructive to take a look at that and see if there's some objection that Bank of America has that you couldn't get close to that model. It seems to me, if other banks can do it, then—and not having looked at it for Sovereign Bank, Bank of America objecting to something they're not even clear on what it is that they might accomplish and might get to some point of agreement with.

Ms. FINUCANE. I think we'd be happy to look at those. We certainly have in the past with Fleet, and so has Bank of America.

I just would repeat, it isn't as if we're talking about two banks that haven't done well at this.

Mr. TIERNEY. No; and please, I don't mean to interrupt. You've said that over and over again, and I think everyone in the room gets the point.

Ms. FINUCANE. I hope so.

Mr. TIERNEY. I hope so, too. But I don't know if Bank of America is getting the point——

Ms. FINUCANE. I think we are getting the point.

Mr. TIERNEY.——that it is quite possible to do a prospective agreement with more specificity than it has.

And now, to get back to the original point, is it attitude, or what is it that makes the bank so stubborn in saying it doesn't want to get to that point?

Ms. FINUCANE. It's not attitude. It's a matter of, in terms of good business—I think the thing is, in terms of the agreements, there are many organizations we will do very specific agreements with in order to produce the results that we need.

These are coalitions of community groups that want various steps to be taken, various iterations on the reporting. You spend a lot of time doing that and maybe less time doing the production, and when you produce much more than any other company can do, I think there's a value to that, too.

Mr. TIERNEY. Did you have those kinds of agreements with Fleet and these organizations?

Ms. FINUCANE. Yes.

Mr. TIERNEY. So it's not impossible to do it; you've done it before?

Ms. FINUCANE. Right.

Mr. TIERNEY. Can you explain for me the reasons, what went wrong with those agreements that would encourage you not to want to enter into them as Bank of America?

Ms. FINUCANE. I don't think it's a matter of what went wrong. This is a different business model.

Mr. TIERNEY. In what way?

Ms. FINUCANE. The different business model is that we will lay out our goals, we will——

Mr. TIERNEY. Without specificity?

Ms. FINUCANE. No, I think there is specificity. I think that we do have more specificity than you're appreciating here in this room.

Mr. TIERNEY. Do you have more specificity, in Bank of America's view, than you did when you had Fleet?

Ms. FINUCANE. No.

Mr. TIERNEY. And you say that your new business model prohibits you from getting the kind of specificity you had in the Fleet agreements.

Ms. FINUCANE. No, I don't think it's a matter of prohibiting. I think it's a matter of, we feel we can deliver on this. We think that in working with the community groups, we will meet and exceed our goals; and we will have a track record from both companies to have done that.

Mr. TIERNEY. Thank you.

Chairman BACHUS. Thank you. I appreciate it, folks, your testimony.

Mr. Campanelli, is there anything you'd like to add?

Mr. CAMPANELLI. No; I appreciate the opportunity to speak before the Committee, and it's really the results of all our team members that allows us to accomplish what we've done. We look forward to continue being a responsible corporate citizen. Thank you.

Chairman BACHUS. Thank you. I appreciate both your testimonies. Very instructive.

Ms. FINUCANE. Thank you.

[Pause.]

Chairman BACHUS. At this time we will reconvene with our third panel, which is made up of elected and state officials. This time, Mr. Frank is going to introduce the third panel.

Mr. FRANK. Thank you, Mr. Chairman. I'll do it in the order that they're seated.

First is Representative John Quinn, who is someone I work very closely with, both on banking issues, and also he is in my district and is a great expert on fishing law. So John Quinn has been a great representative of the fishing industry, and I'm glad to have him here.

Next to him is Senator Andrea Nuciforo. People should know, in Massachusetts, the legislative committees are joint committees; and they are co-chairs of the Committee on Banks and Banking, is it still called, in Massachusetts. Senator Nuciforo represents western Massachusetts, and between them they have a very distinguished record, including the passage in Massachusetts of, I think, a very good predatory lending law that I hope we will take a look at. It's close to the law of South Carolina, and I think serves as a good national model.

Finally, Commissioner Steven Antonakes, who is a bank commissioner. We have a very strong commission in Massachusetts of bank commissioners who have been both fully appreciative of the importance of the banking industry and respectful of the rights of consumers. I understand how they go together, and Commissioner Antonakes has continued in that tradition, so I very much appreciate them.

We have, of course, Massachusetts laws that are applicable. One, in fact, that has been alluded to—and people should be clear it's a Massachusetts law—when there have been various references to the $18 million that Bank of America put into this entity known as the Massachusetts Housing Partnership, that's pursuant to a Massachusetts law which says that if you are going to have this change of ownership, a certain percentage of the assets have to be made available for affordable housing. It's been a very useful law and has produced a good deal of money. Sovereign obviously complied as well.

So I am very grateful to these three gentlemen for joining us.

Chairman BACHUS. Thank you.

Having been a Member of the State Senate of Alabama, I am aware that being a State Legislator is a demanding and difficult job. In many respects, it's more difficult than being a Member of Congress, so I commend you with the job you're doing.

At this time, we will start with Mr. Quinn.

STATEMENT OF JOHN F. QUINN, REPRESENTATIVE, MASSACHUSETTS STATE HOUSE

Mr. QUINN. Thank you very much, Mr. Chairman and the other Members.

I first want to thank you as well as my Congressman, Congressman Frank, for being at this hearing here and the fine work you do. Particularly, as Congressman Frank said about my fishing connections, not only does Congressman Frank do a lot of work on the banking and financial services; he does a tremendous job on behalf of our area of the state.

Obviously, it's been a long and busy day, and a long and busy year in Massachusetts and the country regarding mergers and acquisitions; and unfortunately, I think there's really no end in sight. In Massachusetts there's over 300, or 200 banks here and certainly the bigger-is-better strategy of banks. I think the issues we're discussing today are not just appropriate for today, but for five years and ten years and twenty years from now. It's great and very important that we're here.

I think it's important to distinguish between really two types of mergers. We're fortunate, or unfortunate, to have had both those types in Massachusetts.

One, the mega-merger, where I would put the B of A/ Fleet, in which it's got statewide implications. They've got branches all across the state; and if there's going to be some negative impacts, they're balanced and spread out across the entire State.

The second is one such as the Sovereign/Seacoast, which occurred in my district and Congressman Frank's district, which is a high concentration of impacts. And I must say that in the Sovereign

issue, over 300 jobs were taken out of the center of our major city of New Bedford, as well as the closing of 12 branches.

Through that process and through participation in those two hearings in Massachusetts, I think I've learned, I think, that there's two or three holes in the approval process in the state, which is actually quite similar to the federal approval process. So the remarks I'm going to make are going to be applicable to both the state and federal approval process.

Number one—and we've heard it time and time again—not enough information provided at the approval hearing with not enough specifics. And I want to compare and contrast the Sovereign versus Bank of America mergers.

The Sovereign merger, I'm amazed I'm actually going to compliment them for laying off 300 people in my district; but the issue of process, days before the merger, hearings occurred. They had a plan to lay off 300 people, they had a plan to close twelve branches; but they also had a plan to retrain people and put them into other jobs in the system. They came actually to downtown New Bedford in the shadow of the headquarters that they were going to close down, and said to the people of southeastern Mass., this is what we're going to do.

Did we like it? No. But they were up front, told us what was going to happen, and we could plan for that impact.

Compare that, I think, with the Bank of America hearings, in which we've gone around and around and what was said and by whom and whatever else.

I appreciate the statements today, and I appreciate what's happened over the course of the last couple of weeks of three major announcements of bringing new jobs here, but there was no suggestion that there was going to be a several-thousand-dollars dip in employment levels in New England that would rise again in the first quarter of 2006. I think we all understood that that may occur, but I wish it was up front that we were told, and we could have planned for it.

The definitions of what a headquarters means, and what customer facing positions mean, those were all talked about after the hearing. Sovereign told us about it before; Bank of America after.

And like I say, I want to commend the steps that Bank of America has taken over the course of the last couple weeks; but I think two things caused that to happen: one, this hearing, and the second was the meeting which Congressman Frank and Congressman Capuano called for on a summer day in September, in the Newton Town Hall, in a hot stuffy room in which the entire Congressional delegation was there, and the two of you guys said, this is not what you said you were going to do. And lo and behold, a couple weeks later, they moved the wealth and investment management division to Boston.

It's unfortunate that had to occur. We're here where we are, and hopefully prospectively things can occur and we can have a positive relationship.

But comparing those two approaches, I think it's so important up front to get the specificity and the commitments.

And the second, the two combination issues that I want to talk about in closing, there's no mandatory mitigation plan required at

the state or federal level, and there's really no enforcement mechanism for third-party agreements.

I've written down all the statements that have been made here today by Members and by people in the audience: binding obligation, non-binding obligation, unenforceable contract, local pledges, moral commitment, oral commitment, public commitment, written contract, and my favorite one, it's a floor, not a ceiling, when they talk about employment levels.

What's so wrong with writing something down and sticking to it, at all levels of this? Is it that bad to write something down? You're going to go over to an advocacy group and say, if you testify favorably, this is what we're going to do? Is it so wrong to write something down instead of using nuances and semantics of what a word means? I think not.

We've heard a lot today about this wonderful program, the Mass. Housing Partnership program. As Congressman Frank said, it's a state statute in Massachusetts, which I would strongly urge you look at the federal level.

I know the industry says, oh, it's a taking or it's a tax. This passed in 1990 in Massachusetts. There have been 33 bank mergers in Massachusetts since 1990 with almost a billion dollars—one billion dollars—of loans made available through this program. It certainly didn't hinder or deter any mergers.

What I proposed, and Senator Nuciforo and I have filed some state legislation, and I would hope you would consider it at the federal level, is, have what's good for housing or good for economic development, and backfill in the jobs that are lost. So there also should be a commitment, not a grant, but act as loan money, small business money. So we proposed an entity called the Mass. Development Financing Agency, having a similar commitment made to them.

So it's in statute. It's not a nuance or semantic words; it's in statute that that money will be available.

So again, I want to thank you for having this hearing here; and in closing, I think it's important that these mergers have unique impacts on our communities.

The distinctive character of banking requires that a potential loss due to mergers be given careful consideration as to those aspects I talked about. I hope we'll work hard on the state level to try and impact those, and I urge you to consider in particular that Mass. Housing Partnership, 1 percent or whatever it is. $1 billion in Massachusetts ought to be good for economic development as well.

Thank you.

Chairman BACHUS. Thank you, Representative.

[The prepared statement of Hon. John F. Quinn can be found on page 321 in the appendix.]

Chairman BACHUS. And Senator Nuciforo.

Mr. NUCIFORO. Nuciforo. That's how they say it in Rome.

Mr. FRANK. Tell me how they say it in Rome, Georgia.

[Laughter.]

Mr. NUCIFORO. I don't think I could master the accent, Mr. Chairman.

Chairman BACHUS. I'll tell you what: I won't try to master yours if you don't try to master mine.

STATEMENT OF ANDREA F. NUCIFORO, JR., SENATOR, MASSACHUSETTS STATE HOUSE

Mr. NUCIFORO. Thank you.

For the record, my name is Andrea Francesco Nuciforo, Jr., and I hail from the western part of Massachusetts. I serve in the state Senate here in Massachusetts, and have served in the Senate since 1997.

For the last five years or so, I have also served as the co-chair on the Committee of Banks and Banking. I serve along with John Quinn, who just testified. We both serve, and have for a number of years now served, as Chairmen of that Committee.

I'd like to thank you personally for being here, and certainly to Congressman Frank, who's the Ranking Member, and other Members of the Committee. It's wonderful to have the hearing here. It gives Members access and the public access to this kind of proceeding that we wouldn't normally have.

I have already submitted written testimony, so I'm not going to read that. What I will do is summarize some of that briefly and address some of the points that have been raised by members of the panel previously and by some of the Congressmen that are here.

We have a pretty good idea about what is concerning communities, and the issue is employment. There are other issues that we've heard about, housing and CRA and the like, but the issue we're here really to talk about is the issue of employment.

We've had now a perspective of going through the '90s and now the last four or five years; and we know that when you have big bank mergers, you see some pretty big losses in employment. We can have lots of discussions about what brings that about, but there is some pretty strong evidence that these losses in employment are direct results of these mergers.

I have here in my hand a report. It's an excellent report that was done by the Center for Policy Analysis down at UMass Dartmouth in southeastern Massachusetts, and it was prepared by a professor there named Clyde Barrow. I have a number of copies of this available if Members of the Committee would like to see it. But this is excellent, and I would like to just quote some of the things from the executive summary here.

This report has to do with the southeastern part of Massachusetts, where John Quinn hails from, and this is the New Bedford and Fall River area that Congressman Frank represents.

Between 1993 and 2003, total southeastern Massachusetts employment in the banking industry dropped by 31 percent. 31 percent; those are numbers like what has happened in fishing over 20 or 30 years.

Most job losses in the banking sector are directly attributable to mergers and acquisitions over the last ten years, and we know what these numbers are in that particular area.

In 1995, when Fleet came together with Shawmut, there were 179 employees who lost their jobs.

In 1997, two years later, when Bank of Boston got together with BayBank, there were 100 employees who lost their jobs then.

Then two years after that, in 1999, Fleet and BankBoston got together, and that year Citizens and U.S. Trust got together; and those two mergers combined to cost 500 employees their jobs.

So in four years alone, in that distinct part of Massachusetts, some 800 people lost their job; and that's going up to 2003.

2004 came along, and in 2004, Sovereign and Seacoast Financial, 350 employees. Fleet Boston with Bank of America, we're thinking 500 or so employees. Now, those numbers have changed, and I'll talk about that in a minute. And we also know that Webster Financial got together with First Fed America down in Swansea, and there was a 20 percent job loss there.

So we know the facts, and the facts are that when these big mergers take place in our communities, there are big job losses that result.

Now, while that has been a constant, there's another very substantial constant that we know about bank mergers; and this is something Congressman Frank talked about not long ago. We know there are spectacular executive compensation packages that come along with these deals.

Now, the eye-popping numbers back in '95, when the Shawmut deal happened, were $2 million. Those numbers have gone up substantially. They're $12 million or $15 million or $17 million or $20 million executive payouts. Those are good numbers; they're big numbers.

And this, I think, touches on the point that Congressman Frank made a moment ago. We know that there are incredible efficiencies that are created by these mergers. We know that by using automation and using technology, there are big efficiencies and the shareholders are rewarded. But we have not seen those rewards go to people that are down below, and that is my concern.

It's not surprising, or we shouldn't be surprised to know, that when the Federal Reserve Board allowed the approvable of this most recent deal between Bank of America and Fleet, there was only one passing reference, in a 58-page opinion, to employment.

We shouldn't be surprised, because the Bank Holding Companies Act doesn't require that you look at employment. It should. Because we've seen these kinds of substantial impacts on employment in our communities, I do believe that this Committee should act and that Congress should act and that we should have an amendment to the Bank Holding Company Act; and that amendment should require that, as part of the approval process, we should add another factor for the Federal Reserve Board to consider, and that factor would be the employment impact, short-term and long-term impact on employment in the affected communities.

I'm not going to go on at any greater length, other than to say that I'm really pleased that you're here, and that you're here to hear from us on the state side, because we have watched, as a matter of state law, some smaller mergers; but these mega-mergers have had dramatic impacts on our communities, and I hope you take into consideration some of the comments we've made.

Thank you.

[The prepared statement of Hon. Andrea F. Nuciforo, Jr. can be found on page 311 in the appendix.]

Mr. FRANK. Mr. Chairman, before we proceed, could I ask the others to consent to put that very good report from Clyde Barrow into the record.

Chairman BACHUS. Yes, hearing no objection.

Commissioner?

STATEMENT OF STEVEN L. ANTONAKES, COMMISSIONER OF BANKS, COMMONWEALTH OF MASSACHUSETTS

Mr. ANTONAKES. Thank you.

Good afternoon, Chairman Bachus, Congressman Frank, Members of the Committee and staff. My name is Steven Antonakes, and I serve as the Commissioner of Banks for the Commonwealth of Massachusetts. Thank you for the invitation to testify today. I have submitted written testimony which I'll be summarizing this afternoon.

Massachusetts has a longer history than most in experiencing interstate transactions, having passed the first regional interstate banking act in 1982, and a nationwide interstate holding company law in 1990.

Four years later, Congress passed Riegle-Neal, providing for nationwide banking. Massachusetts adjusted its law accordingly in 1996. Accordingly, the rules for nationwide holding company acquisitions have essentially been well-settled since 1990.

The Massachusetts state bank holding company act requires bank holding company transactions to be approved by the Commonwealth's Board of Bank Incorporation. I chair this three-member board, which also includes the Commissioner of Revenue and the State Treasurer.

The law applies to all acquisitions of Massachusetts holding companies as well as banks, regardless of whether the bank is state or nationally chartered. This provides a significant benefit of local review of certain transactions that would otherwise only require federal approval.

Massachusetts statutory approval requires the Board to determine that competition is not adversely affected and whether or not public convenience and advantage will be promoted. This includes a determination of net new benefits, such as initial capital investments, job-creation plans, consumer and business services, and commitments to maintain and open branch offices.

Other factors considered by the Board include the CRA rating of each bank or its subsidiary. In addition, as has been referenced several times today, the law requires the bank holding company pledge .9 percent of the assets located in the Commonwealth to be made available for low-cost loans through the Massachusetts Housing Partnership Fund.

Not unlike the rest of the country, Massachusetts has seen substantial consolidation within the banking market during the past 20 years. Nevertheless, the number of jobs tied to the Massachusetts banking industry has increased during this period.

Consolidation has allowed banks to grow stronger, thereby allowing banks to be more competitive, add branch offices, and add additional lines of business. This, in turn, has allowed banks to increase their employment bases over time despite cases of initial layoffs following mergers.

As a result of nearly 20 years of consolidation, however, a bifurcated system has emerged, both locally and nationally, which generally includes a small number of very large banks operating on a nationwide basis, and a large number of small community banks. The existence of very large banks has been authorized by federal and state law as legislators and regulators recognize that there could be benefits if, like other financial service entities, the banking system operated on a nationwide basis.

I appreciate and recognize the Committee's decision to take time and understand the impact of these laws, regulatory approvals, and consummated mergers on all interested parties. I also encourage the Committee to consider what needs to be done at the federal and state level to foster a banking system that remains receptive to both large nationwide and smaller community banks.

Certainly, a significant benefit exists in maintaining the current level of banking choice. Allow me to briefly share with you some of my thoughts on how to best position our community banks to be able to effectively compete against larger nationwide banks to ensure that consumers continue to enjoy the advantage of multiple banking options.

First, regulators and state legislators need to ensure a competitive environment exists for our state-chartered banks. This can be accomplished by ensuring that the state banking code is regularly updated and does not place state-chartered banks at a competitive disadvantage.

In addition, state banking departments need to increase efficiency and ensure that they complete their supervisory duties while minimizing examination-related regulatory burden.

Second, regulators, state legislators and Congress need to recognize the overwhelming and growing compliance burden on the banking industry and its disproportionate effect on smaller institutions. For community banks, the costs to comply with the litany of federal and state laws and regulations threaten not only their ability to compete with their larger counterparts and serve customer and community needs, but also threaten their own viability.

Third, thought should be given to requiring that community banks receive preference in the process to purchase or lease branches closed or divested as a result of a bank merger. This will allow community banks to expand their branch networks, maximize banking choice, and perhaps provide continuing employment opportunities to existing branch personnel.

And finally, Congress needs to continue to be vigilant relative to the efforts of federal bank regulatory agencies to preempt state consumer protection law. We should question what public policy goals such actions further. If federal preemption efforts continue, not only will consumer protection efforts be weakened, but federally chartered banks will gain an even greater advantage over smaller state banks, resulting most likely in the end of the community banking system as well as the nation's century-old dual banking system.

Thank you very much.

Chairman BACHUS. Thank you.

[The prepared statement of Hon. Steven L. Antonakes can be found on page 82 in the appendix.]

Chairman BACHUS. At this time, I'm going to yield to the Ranking Member. I'm also going to surrender the chair to him, which is permitted by our rules. You don't often see it, but you will today.

Mr. FRANK. Again, I thank you. The Chairman of the hearing came from Alabama yesterday, and is going back today, and I very much appreciate his making this possible. If the majority had not cooperated, we couldn't have had this hearing. Thank you.

Chairman BACHUS. And it is something that affects all of us; and from a business standpoint, we do—efficiency of scale is just something that businesses do, so it's something you almost expect them to do, to make these combinations when they create efficiencies.

It is hard on the communities, and it's hard on us, to see our local institutions in many cases be absorbed by institutions which are not locally owned. And it is something that is an issue; it's a growing issue across the country as we have more bigger banks. We have three that have almost 10 percent of the deposits now. And while we are creating many smaller banks as a result—and that's what often happens, is people want a local bank.

But it's something that we'll be dealing with for years ahead. We appreciate your input and your continued input, and look forward to working in a bipartisan way to see that the consumers and the communities benefit from whatever the path that banking and financial services goes now.

Mr. FRANK. Thank you.

I thank the Chairman as he leaves, and you can be sure that the hearing is not going to go on too much longer because I have to return this to Tom DeLay by 5:00.

[Laughter.]

Mr. FRANK. [Presiding.] I want to begin with a couple of points of strong agreement with Commissioner Antonakes.

The last point he raised is really the subject for another set of ears. There is a pending action actually already taken by the Comptroller of the Currency preempting a wide range of state laws.

The problem is that the Comptroller of the Currency is not equipped to do a lot of the consumer enforcement. Indeed, we've got a very interesting issue of that sort that I'll be addressing later; but our Attorney General, Tom Reilly, is now engaged in trying to enforce good consumer protection against gift cards.

People go into stores and get gift cards, and what we've found is, people sometimes buy the gift cards, and they've got an expiration date that people aren't clear about, and there are other restrictions on them; and Attorney General Reilly wanted to enforce our Massachusetts consumer laws. The retail stores that have these cards are saying, oh, no, you can't do that, because we're banks. We're in effect the agents of banks here and the Comptroller of the Currency has preempted this.

Now, the Comptroller of the Currency, if that preemption were to go forward, has no way to make those consumer protections; and the Controller has stayed out of it for now, but this is an example of the kind of overreach that the Commissioner is talking about.

Frankly, I don't think it's an accident that it's at the state level that consumer protection is really best done.

At the federal level, with all due respect to the regulators, they're concerned with large systemic issues. Individual consumer cases

aren't going to have as much impact there as they will have on the state and local levels, so that's a very important point.

The second point where I very much agreed with the Commissioner—I want to look at this—has to do with giving some preference when there has to be the sale of branches to community banks.

We had an example here. When Fleet and BankBoston merged, there was of course considerable overlap in branches. I forget how many branches had to be divested, but it was a very large number.

The Attorneys General at that time of both the U.S. And the State of Massachusetts said, well, antitrust being what it is, we want to take all of those branches that have to be divested and put them in one big package and sell them to one big outside bank, so that outside bank can come in and provide competition to Fleet.

And what many of us in our delegation heard was, no, don't do that; we don't want to have to choose between two very big banks. This came from our local Chambers of Commerce, local retailers, from people who were in the locally oriented businesses; they said, we would find that very difficult. And in fact, all of us in the Massachusetts Congressional delegation signed a letter urging that some of the branches be sold to the community banks.

We got some criticism from some journalists who said we were shilling for Fleet in doing that. And it did not come from banks, but from borrowers.

I think about 10 percent of the branches were then sold to community banks. We wish it had been more.

A year later, I was struck that the Boston Globe, which had been somewhat critical of Congress, wrote an article saying, well, that consumer satisfaction was at a much higher level in the smaller banks, in the smaller areas. So that notion of preference to community banks is very important.

Of course, the two come together, because one of the things we have is, the Comptroller of the Currency sent out a CD in which he tells you that if you change your charter, if you leave your state charter and become a national bank, he won't regulate you very much. It was kind of a recruitment to come be a national bank to the Comptroller of the Currency.

So I just want to express complete agreement with the Commissioner on those points.

As far as regulation is concerned, I think it is possible to kind of help CRA be not a burden, but I do not favor the cutbacks in CRA reach which we have heard about.

Now, to Senator Nuciforo, I just want to focus particularly, because he recalled us to one of the purposes of this hearing, and that is the job impact.

As I read the law, the regulators, if they choose to do it, have at least some leverage over the community reinvestment piece; but they have no leverage over the job piece.

And I guess we say to them, yes, well, obviously we expect there to be some job loss. If in fact it turned out that the purchase of a particular in-state bank by some out-of-state bank was going to totally reduce employment in a very substantial way, that that's something we're going to be able to take into account and object to.

Mr. NUCIFORO. I think it is something that we ought to be able to consider.

I think we also have to take a look, not just at what has happened in the recent past, but at what is likely to happen in the future. Toronto Dominion recently announced its intentions to acquire Bank North group; and Toronto Dominion is, of course, based in Toronto, and has indicated on several occasions in the newspaper that it not only wants to have a very significant franchise here in the Northeast, which is currently Bank North, but they intend to acquire three or four or five other banking properties along the East Coast and central part of the country: Ohio, New Jersey, Pennsylvania, these kinds of places.

So we have an opportunity now to amend the law and make sure that, going forward, when you have other large mergers that are happening, we can consider employment during that time.

Mr. FRANK. I'd like to be very explicit.

People will say efficiency is the thing. Efficiency is very important; it ought to be a major goal. But I think it is a grave error to make efficiency the only criterion.

We are consumers in this country; we are also producers. And a society in which the ability of people to earn is totally neglected, again, it's got an economic problem.

As I said, Henry Ford paid the workers at the time five dollars a day, and people said, what, are you nuts? In fact, in some areas, he was; he was this crazy conspiratorial anti- Semite, so he was nuts about some things, but he was a genius about industrial production.

Eventually he said, look, if I don't pay these guys a decent amount of money, who's going to buy the cars? And I think we are in danger in this country of reaching the level of income inequality which will produce macroeconomic problems, because you will have a consuming public unable to buy enough to sustain production. I think that's what we're seeing with this great disparity now, where the luxury retailers are doing wonderfully and the lower-end and middle- end retailers are doing very poorly.

So I do think it is a mistake to say increased efficiency will be the only guideline of public policy, and that we won't take into account both regional and even macroeconomic impacts.

I have over gone my time. I do want to express my appreciation to my legislative colleagues. I think we will be working together, and I did want to say particularly to John Quinn, we've been wrestling at the federal level with the question of how to fund the Housing Trust Fund. Some people want to take it out of the FHA, and I think that has serious problems.

I must say the analogy to the affordable housing program here in our Massachusetts statute here, it's a very good idea; so I am going to pursue that further, and we'll be in touch on that. Thank you.

Mr. Watt?

Mr. WATT. Very briefly, Mr. Chairman. I've been looking forward to calling you "Mr. Chairman" for a good while, so I can't resist calling you "Mr. Chairman" while I have that opportunity.

Mr. Quinn, there were a couple of suggestions that you made for federal legislation. Any of those things currently in the state legislative, state laws?

Mr. QUINN. Yes. As the Chairman just said, in 1990 we passed the state statute that requires nine-tenths of 1 percent of the assets within the Commonwealth that are being taken over to be made available for call by the Mass. Housing Partnership.

So it's funded over $900 million of housing programs, and I know that the Bank of America, on top of the $18 million grant, I think it's $406 million that they'll be making available over the next ten years.

Mr. WATT. Does the state have any employment criteria such as what was being suggested by Mr. Nuciforo?

Mr. QUINN. No, there is not. As part of this bill that we file for next session, we would require, premerger—and it's critical that it be premerger—to have job projections of one, three, and five years out by the petitioner, so that the board that's making the call of whether to approve it or not has in front of them the facts or the projections of what's going to happen over the next five years. So there's no requirement of a particular rating of employment, but at least a knowledge of what it may be so that a full disclosure is made premerger.

Mr. WATT. Do you contemplate having some sanction if the projections are not lived up to? Or do you suggest disapproval of the merger that might result?

Ms. FLYNN. One of my suggestions, it might be scary to the industry, but why can't you have a conditional approval ora subject-to approval? If you're going to make these commitments up front, the approval is subject to, you're committing or keeping your word on what was said at the hearing.

Mr. WATT. What's your position on that, Mr. Nuciforo?

Mr. NUCIFORO. I think we do this with respect to CRA. We give people scores. We figure out a way to determine what their commitment should be to CRA, and then each and every year there is a measurement. So we're able to say, Mr. Antonakes said a moment ago, that an institution is outstanding or an institution is not outstanding. There's got to be a way to similarly measure a bank's compliance with the promises it makes with respect to employment.

And keep in mind, I don't think this should be the sole factor; but there are seven or eight factors set forth in the bank holding company statute. Why not add another one that has to do with employment, particularly when we're seeing numbers, employment impacts like the kinds we're seeing right now.

Mr. WATT. I think I'll yield back, Mr. Chairman.

Mr. FRANK. Thank you.

Mr. Capuano?

Mr. CAPUANO. Mr. Chairman, I just want to thank the representative of the Senate and the Commission for coming today. I feel as thought we're on the same page, fighting the same battles with the same people, and I want to thank you. I wish Representative Bachus were still here, because I would remind him, as far as I'm concerned, you both speak with accents. I struggled to follow each and every word you said.

[Laughter.]

Mr. CAPUANO. I really don't have any questions, because I agree with everything you said. I really have just a commentary to remind you of the struggles we face.

I know that you know the numbers in Congress, and I know you know that the current Administration is less than friendly to even the concept of regulation. Regulation is a swear word within the current Administration, and they look the other way on all kinds of things.

That's why, though a CRA rating of outstanding is okay, it's fine by me, it's better than not outstanding, it's not unusual; it's good, it's as good as you can get. But it's really not a stratified rating all that much. I actually think it should be rated in a more stratified way so we can really know who is doing more than that was necessary.

As far as I'm concerned, in the banking world, I've been doing banking law since, I don't know, 1978 with Kevin Kiley pretty much the whole time. I was around during the beginning battles of the whole debate about interstate banking that has now come to show that mergers aren't necessarily bad or evil in themselves if it works out; it actually makes room in many ways for smaller banks.

And this merger is no different. It may or may not; in the final analysis, it will probably be an okay thing. It's not a bad thing, having mega-banks around for the people who need mega-banks.

The question is, what does it mean in the long run, and what can we do to solve it? I know from the legislative perspective, I have no doubt that you feel like you have a tiger by the tail. What real clout do you have?

I won't speak for the rest of my colleagues, but I don't feel like I have a tiger by the tail as much as we don't have a tiger. We have an Administration that doesn't want to regulate, doesn't want to look at it; and we have a Congress right now that's really not all that interested even in looking at some of the things that you suggested.

Mr. Frank, obviously, is the leader of this group, and where he leads, we'll probably follow; and that's all well and good. But it's important that you know, because we know, that the likelihood of success in the short term is really not that great.

No matter how little it might seem, I think there's very little hope that we'll be able to get anything passed through Congress that will even approach some of the things Massachusetts has done or the things you've outlined.

I do think we should work on them, and I'm sure we will; but I think, like with many things, the leadership really has to come from the Commonwealth. You've done a great job thus far, you've done what you can do within the limits of the mega-merger world, and I encourage you to do more, and as we go forward, my hope is that little by little, first of all, the people who are doing the mergers don't see us as the enemy. Sometimes they will, and that's inevitable. But I don't think I've heard anything here today that has been extraordinary. All we're asking for is plans. As you said, Representative, what are the plans? What are you going to do? How can we deal with it? How do we move on?

We all know that yesterday's ways of doing business, not just in the banking world, but everywhere. Manufacturing, we've been through manufacturing. Even the fishing industry is changing daily. And our job is to try to figure out, okay, how do we help the people that are left behind? How do we then catch them up?

Again, I just want to thank you for coming today. Thank you for your leadership on these issues and others, and to pledge to you our support of your efforts and our cooperation as we move forward.

Mr. FRANK. Just a brief comment on what my colleague said. It's true with regard to any major legislative changes in the direction we'd like to see, they're highly unlikely.

There is one possible exception. That is, as Commission Antonakes noted as the Bank Commissioner, on a bipartisan basis, every state bank commissioner and every state Attorney General has expressed serious concern about the reach of the preemption by OCC, and I think there may be a chance for us to work together on that.

The only thing I would say is this: It is true that we are unlikely to be able to get passed some of the legislation we want to get passed. On the other hand, our friends in the banking industry have some legislation in some cases that they would like to see passed.

And the important principle to remember legislatively is that the ankle bone is connected to the shoulder bone, so there may be some basis for negotiation there.

Ms. Lee?

Ms. LEE. Thank you very much, Mr. Chairman. I too want to thank our panelists, coming from the state legislature to Congress. I understand, first of all, the power of state legislators at this point, and so I appreciate all of your progressive moves here in the State of Massachusetts, and want to comment on Commissioner Antonakes' comment with regard to caution as it relates to federal preemption.

You know, oftentimes many of us find ourselves on the other side of the states' rights argument when it comes to federal preemption of laws relating to the government and the financial services industry.

Case in point: I just want to ask your thoughts on this. When we passed, of course, the Fair Credit Reporting Act, many of you know that California has much stronger consumer protection requirements than many states, and of course we had a battle around that.

Some of the discussion, and I have an amendment—well, several amendments, but one was to make the federal standard no less than the strongest state standard. Of course, that got shot down.

Another one was to allow California and other states which had stronger consumer protection requirements, allow those states to be grandfathered in. Well, that got shot down. But I'm pleased that our Chairman was able to help us mitigate against some of the negative preemptive aspects of that as the bill went through the House.

And then the other option could be that the standard, the federal standard, should be the floor rather than the ceiling.

But now we're faced with, again, looking at predatory lending, which will be coming up. We've had many discussions about this, and I'd like to get your take with regard to what the options are for us at the federal level to ensure that, again, states' rights provisions prevail where the consumer is better protected.

Mr. ANTONAKES. Thank you very much.

First, I should acknowledge really the leadership role that Chairman Frank has taken on matters regarding federal preemption.

I think it's a delicate issue in many respects, in that you want to recognize that we do have a dual banking system. You don't want to unnaturally impinge on the ability of national banks to compete nationally and globally, and do their business without undue interference from the crazy quilt of state laws that exists.

But I think specifically in areas relative to consumer protection, that state laws should be recognized; and if a decision is made to roll back state laws, the appropriate place for that to come from is Congress and not from a federal agency without public debate.

Mr. NUCIFORO. If I could say something about that, it was, I think, 1999 or 2000 when the issue of ATM surcharging came up, and I know this was debated widely across the country. And here in Massachusetts, several of us, including me, filed bills that would limit the ability of banks to surcharge.

That kind of bill was stalled in the state legislature for a variety of reasons, one of which was that there was a case proceeding in the federal courts in Connecticut that was addressing the same issue. The case there was whether the OCC and its rules could preempt any state consumer protections in that area, ATM surcharging. The federal opinion went against us, as I recall.

So we have seen from the federal side preemptions of a whole host and a whole variety of consumer protections that are enacted in state law. Predatory lending, I suspect, will be the next one.

But I do think that to the extent you've got any ability as a Committee or as a Congress sitting as a whole to specifically limit the ability of the federal regulators, OTS, OCC, the others, to preempt us, it would make a difference.

Ms. LEE. How would you suggest that the grandfathering in states would have stronger consumer protections? I mean, what would be your specific suggestion?

Mr. NUCIFORO. Well, I think states generally get the kinds of consumer protections that they deserve and that they want. What's good for consumers in Massachusetts might not be the kinds of protections that they would choose in Alabama or in California or elsewhere.

So I do think that there should be some effort to seek the level of consumer protection required by people on the state level.

Now, how you do that, how you craft that kind of provision in Congress, you're the experts on that; I'm not. But that's the goal I think we should be moving towards.

Mr. QUINN. I'll just add quickly, you ought to have the federal law be a floor, not a ceiling, and to allow the grandfathering of existing laws. Predatory lending is a perfect example, for the 25 states that have passed predatory lending laws. National banks say, A, we don't do predatory loans; but B, your laws aren't going to apply to us anyway. So it puts us in a tough situation.

Then there's always the implicit threat that if it gets too tough in Massachusetts, we'll just flip to a federal charter, and we'll see you later. So it's a delicate balance, but I support the grandfathering and making the federal law no less.

Ms. LEE. Thank you very much. Thank you, Mr. Chairman.

Mr. FRANK. I just wanted to say to Commissioner Antonakes, illustrating part of the principle, which is there are some things that are core banking functions, and I don't think—we passed a law about check truncation; I wouldn't let the states interfere with that. Deposit insurance.

What we need to do is distinguish. On the other hand, you have a claim that there's a preemption if a state tries to regulate gift cards which are issued by a retailer, because ultimately the retailer is financed by a bank. I think that's one of the things we have to determine, is what is or isn't in the core banking function.

Now, some traditions ought to be maintained, so the last word will go to a New Yorker.

Mr. Meeks?

Mr. MEEKS. Thank you, Mr. Chairman. And I really don't have many questions. I'll be real brief, also.

I want to thank all of you for being here and for participating in this hearing. I want to thank the Chairman, because I think you were right when you urged us to come here, that this indeed affects your state in Massachusetts, but it has some broader ramifications for all of us, whether you come from California, New York or North Carolina. So I want to thank you for putting this together and thank everybody that participated.

I mentioned to the Chairman earlier—and I do like that word, Chairman Barney Frank is sitting there, so I'll use it as often as I can, also—I mentioned to the Chairman a few minutes ago that I was tremendously impressed, particularly when we had the not-for-profit organizations that were before us and the way that they seemed organized as well as the way they seemed empowered to negotiate with the banks, et cetera.

I guess my only question would be, the fact that the way that Massachusetts law is written, that all the bank mergers have to go through the Massachusetts bank board, do you think that has an effect to empower community organizations so that they are able to negotiate and try to work together to follow through to make sure that the communities' needs and requirements are being taken care of?

Mr. ANTONAKES. Congressman, I think it certainly does. I think the aspect of local review is very important; the fact that we have a public hearing here in Massachusetts, often try to have it in the community that's most impacted by a merger.

We had, as was referenced, and Representative Quinn had requested, we had our hearing on the Sovereign-Seacoast application in New Bedford. We had the Fleet/Shawmut hearing back several years ago in Worcester, where that was the city that was most impacted by the merger as well. And I think local review and the approval process does to some degree empower local community groups and further fosters a good dialogue between banks and those organizations.

Mr. NUCIFORO. I would agree with everything the Commissioner just said.

We have here in Massachusetts something called the Board of Bank Incorporators, and the Board of Bank Incorporators is the Commissioner of Banks and the Commissioner of DOR and the State Treasurer. Those three sit as a board to decide, upon application from merging banks, whether there are net new benefits resulting from this merger. Part of that is actually the jobs issue, but there are many other factors.

My good friend John Quinn here has filed a bill, and I think it's a terrific bill, that would beef up the net new benefits criteria so that we could take a look at specifically employment and the impacts on the local economic condition as a result of these things.

Mr. MEEKS. Thank you.

Mr. FRANK. Thank you.

The representative from California.

Ms. LEE. Thank you.

Before I leave, I just would like to thank the Chairman for bringing us all together today for this hearing, and I wanted to say that what I have heard here today really gives me a lot of hope in terms of the B of A/Fleet Boston merger. I wish, when B of A departed the Bay Area, that we would have had these types of constructive discussions ahead of the curve.

I think that the negative impact in terms of employment, in terms of economic impacts and in terms of all of the issues that we are still dealing with in the Bay Area as a result, we may have been able to—we would have been in better shape. So I want to commend you, Chairman Frank, and commend all of you for being here today.

Mr. FRANK. Thank you, and I hope the Massachusetts groups, while obviously they're not fully satisfied, will reflect on that, which is that yes, this process has been helpful; and I think we have come out of this, or are going to be coming out of it, better than we might have.

I just, in closing, again want to thank—the gentleman from North Carolina?

Mr. WATT. Mr. Chairman, I ask unanimous consent that I be allowed to submit for the record a series of newspaper articles.

I do this because, on the way here, I was going through, and there was an identification of so many different local impacts that mergers are having, not only in connection to community jobs, but the kinds of contributions that are being made to non-profits, to charitable institutions. Sometimes the larger the merged institution and the further away it is, it changes the quality of the charitable contributions.

Some of those things are reflected in these newspaper articles, which I also would encourage the banking interests to take a look at. It's a whole myriad of things that are kind of set into motion as a result of a merger.

Mr. FRANK. Without objection, they'll be put in the record.

I just want to close by thanking people. First of all, the witnesses really set a good example here. I wish we had witnesses—let me just say, these kind of field hearings are sometimes, frankly, road shows, dog-and-pony shows, where we look good.

This has been one of the more substantive hearings that I have been in as a Member of the Committee, and I want to thank my colleagues. I hope everyone in the area appreciates that getting nine Members of Congress a couple weeks before Christmas isn't easy. Five of our colleagues are from out of town. Four of them are from Massachusetts. The witnesses were all very good in their testimony. They were on point. They responded to questions.

Finally, when we have hearings in Washington, it's pretty routine; but to bring nine Members of Congress and all these witnesses and everything else 400 miles away is a lot harder than it may look.

So to both the Republican and Democratic staffs, my deepest appreciation. This has been a very well-run hearing, and we've had good substance. We haven't lost a Member yet. We have a couple more to get to the airport, but I think we'll be okay; but I really am appreciative of the staff.

As I said, it's hard to kind of export this, and I think this has been done very smoothly from the recordation to the presentation of the witnesses.

So I just want to thank everybody, and also note that if I hear no objection, the record will remain open for 30 days; and I should tell the witnesses, what that means is that Members of the Committee will have the option, including some who weren't here, of submitting questions to us, which we will transmit.

If any Member of the Committee has a question that they would like put to a witness, we will submit that, and the witness will have a chance to answer. And we will keep the record open, which means, one, if the Members think about something, they can do it; and, two, if any witness feels he or she wasn't asked something he or she wanted to be asked and has a point they want to make, it's not hard to find a Member to ask you.

[Laughter.]

Mr. FRANK. And the responses will be placed in the record.

Hearing no objection to that, it is so ordered; and the hearing is adjourned.

[Whereupon, at 2:12 p.m., the committee was adjourned.]

APPENDIX

December 14, 2004

STATEMENT OF CHAIRMAN SPENCER BACHUS
COMMITTEE ON FINANCIAL SERVICES
FULL COMMITTEE HEARING
"BANKS, MERGERS, AND THE AFFECTED COMMUNITIES"
DECEMBER 14, 2004

Good morning. The Committee will come to order. Today's hearing, which was requested by the Committee's Ranking Minority Member, Mr. Frank, will examine the economic impact that large bank mergers have on local communities served by the combined institutions. With the recent passage of the fifth anniversary of the Gramm-Leach-Bliley Act — which made it easier for banks, insurance and securities firms to consolidate — I believe that this hearing is an important and timely one and gives us an opportunity to start looking at the effects of the Act on consumers and the financial services industry.

Legislation designed to deregulate U.S. banking markets, technological advances, and other macro-economic factors have contributed to significant structural changes in the banking industry. There has been a decline of nearly 40 percent in the number of banking organizations since the mid-1980s, when industry consolidation began in earnest. Since 1995, the ten largest U.S. banking organizations have increased their share of domestic banking assets from 20 percent to 46 percent by year-end 2003. I am to some extent concerned about over-consolidation in terms of its effects on the safety and soundness of the banking system as well as how it will affect consumers from a competitive standpoint. With the most recent wave of mergers, we now have three banking companies — J.P. Morgan Chase, Bank of America, and Citigroup — whose assets are in the range of one trillion dollars each.

That being said, although we have seen greater consolidation in recent years, the degree of consolidation is a relative notion. Over the past decade, roughly 90 percent of bank mergers have involved a target with less than $1 billion in assets, and three-quarters have involved an acquiree with assets of less than $250 million. Moreover, we have not seen the kind of consolidation that we have seen in other industries such as telecommunications, the automobile industry, technology or even the hotel and restaurant industry. We are not close to having a banking organization with branches in 50 states, and we have substantially more banks than other countries. In fact, approximately 1100 new banks have been formed since 1992, showing that investors continue to be willing to risk their own money to set up new community banks. In addition, many consumers are investing in mutual funds, securities, and real estate rather then putting their money into a savings account.

Today's hearing in Boston will focus on recent mergers with particular implications for the New England region, including the merger of Bank of America and FleetBoston, as well as a smaller merger between Sovereign Bank and Compass Bank. The Committee will hear testimony from New England-based community groups, executives of the relevant banks, and state and local officials. I welcome today's witnesses and look forward to their testimony.

In closing, I would like to thank Mr. Frank for working with us on this hearing. He deeply cares about the impact of bank mergers on the communities and consumers in the New England community. I also want to thank the Chairman of the Committee, Mr.

Oxley, for recognizing the importance of this hearing and for all of his work in putting it together. The logistics for a three-panel hearing outside of Washington D.C. is no small task.

The chair now recognizes the Ranking Member of the Committee, Mr. Frank, for any opening statement that he would like to make.

Committee on Financial Services
Federal Reserve Building, Boston, MA
"Banks, Mergers, and the Affected Communities"
December 14, 2004

Opening Statement of Congressman Stephen F. Lynch (MA-09)

Good morning. Thank you Chairman Bachus. I also want to thank Chairman Oxley, who couldn't be here today, and my colleague and friend Ranking Member Barney Frank for all of the good that they have done to bring this hearing to fruition today in Boston.

I am honored to welcome our witnesses here, a few of whom I am proud to call my constituents. Whether it has been in our local communities, in the board room or in my old haunt the Massachusetts State House, many of these individuals are personally and professionally committed to ensuring that our banks remain true civic players in the wake of large mergers. For example, on our first panel we have Florence Hagins from the Massachusetts Affordable Housing Alliance. Florence has dedicated years of her life to providing housing counseling to over 5,000 homebuyers and homeowners in her years at MAHA. As part of this process, she highlighted to her students the benefits of the Soft Second mortgage program. I am sure that many of her success stories of first time homebuyers were possible because of public private partnership between community organizations and local banks.

Oliver Wendell Holmes once said "the greatest thing in this world is not so much where we are, but in which direction we are moving." We are in an age of increasing globalization and large-scale consolidation in the financial services industry. As legislators, we have an obligation to consider how our laws can be strengthened in this changing environment so that we can better anticipate the full impact of a bank merger on a local community. For example, does the Community Reinvestment Act need to be shored up to better protect worthwhile programs in our cities and towns during a merger process? Is there enough transparency in the charitable giving practices of banks? These are just a few of the many relevant policy questions that are legitimate areas for the Committee to explore.

In addition to being a lawmaker, I am a citizen of Massachusetts. From this perspective, I would like to highlight and focus upon the real impact to our community that has followed from the Bank of America/ Fleet and Sovereign/Seacoast mergers. Inevitably, much of our focus at today's hearing will be upon what is left to be done. It is critical that we remember the accomplishments and contributions we have already seen. Both Bank of America and Sovereign have accomplished a great deal in the last year in the wake of these large scale mergers in our community. I applaud the leadership of Ken Lewis, Chad Gifford and Joseph Campanelli in guiding these institutions forward.

These leaders, and countless others, have worked hard to listen to the needs of our communities and strived to address them. In early December, Sovereign Bank announced a "Community Investment Agreement" of $3.6 billion of funding committed

through 2008 and the establishment of a Community Advisory Committee. Over at Bank of America, they agreed to a number of commitments to the community, particularly in the realm of affordable housing. For example, Bank of America has maintained support for the Soft Second mortgage program, which is very popular in my district in Dorchester. Additionally, they joined the Federal Home Loan Bank of Boston and committed to providing $100 million in community lending and investment in the Fleet footprint over the next ten years. Just last Friday Bank of America announced the addition of 300 executive jobs to the area as part of the transfer of the Wealth and Management Division to Boston.

Despite all of these accomplishments, there are still some details to be worked through. Bank of America has committed $1.5 Billion of charitable giving nationally through its foundation over a ten year period, however questions remain about how this money will be distributed. As we will hear today, local community groups are still working through the details of small business lending, community development funding, and the levels of charitable commitment in the Massachusetts area. It is my hope that this forum will create an opportunity for all parties to see where they have common ground and identify possible areas of progress moving forward.

Thank you to each one of you for participation in this hearing. I look forward to your testimony.

I yield back.

Congressman Tim Murphy, PA-18
Opening Statement
House Financial Services Committee Hearing on "Banks, Mergers, and the Affected Communities"
November 17, 2004

Thank you Chairman Bachus. I would also like to thank our witnesses for taking the time today to comment on the impact of financial institution mergers.

I understand the importance of consolidating major financial institutions to benefit the community. These transactions provide financial stability and economic development, as well as offer a broad range of financial services to the public often not available through smaller banks.

In the 18th district of Pennsylvania I have the privilege of representing two chief financial companies, Mellon Financial Corporation and PNC Financial Services Group, as well as several independent financial entities. These institutions offer practical financial services at the corporate, small business, and personal level while enhancing the community financial system.

Undoubtedly, through these acquisitions and mergers, the size and scope of fiscal services offered by of our country's financial industry have been changed. Bank of America surprised the world when announcing its merger with Fleet and spurred a series of additional financial fusions. J.P. Morgan Chase followed suit by acquiring Bank One and Sovereign purchased Seacoast. This reconfiguring of major financial institutions, concurrently, has brought about a string of concerns.

At the heart of this hearing is the impact these large-scale mergers have on employment and financial stability in communities. While Bank of America's combination with Fleet resulted in a 2.5 percent job cut, it has also launched a ten-year community development plan to contribute to the local economy. Like Bank of America, J.P. Morgan Chase agreed to a ten-year $800 billion community development plan. Additionally, the Seacoast merger resulted in the closing of twelve Sovereign branches coupled with a $3.6 billion commitment to community investment, signifying its efforts to remedy the unfortunate repercussions. I applaud the efforts of these financial institutions as they consider community interests during mergers; nevertheless, I believe stricter adherence to the regulations protecting community investment and development to be critical.

Mergers are a chief feature of the financial industry. They generate new job growth and provide communities with valuable assets. Yet, I am concerned that many modifications in major financial institutions may drastically interfere with consumer interests. Adequate oversight is required to guard against anti-competitive practices that may threaten the financial needs of our local communities.

I look forward to hearing from our witnesses on this matter and yield back the balance of my time.

TESTIMONY OF

STEVEN L. ANTONAKES

COMMONWEALTH OF MASSACHUSETTS
COMMISSIONER OF BANKS

before the

COMMITTEE ON FINANCIAL SERVICES

UNITED STATES HOUSE OF REPRESENTATIVES

December 14, 2004

Good morning, Chairman Oxley, Congressman Frank, members of the Committee and staff. My name is Steven L. Antonakes and I serve as the Commissioner of Banks for the Commonwealth of Massachusetts. In this capacity, I also serve on the Legislative, Regulatory, and Strategic Planning Committees of the Conference of State Bank Supervisors. Thank you for the invitation to testify today.

The Division of Banks is the primary regulator of nearly 300 Massachusetts state-chartered banks and credit unions holding total combined assets in excess of $225 billion. The Division is also charged with licensing and examining over 5,000 non-bank financial entities, including, but not limited to, mortgage lenders and brokers, check cashers and sellers, foreign transmittal agencies, and collection agencies.

This morning, I intend to describe the bank holding company acquisition and bank merger review process in Massachusetts; relate the impact of bank consolidation in Massachusetts; and discuss why I believe it is necessary to better position community banks to compete if we want to ensure the continuation of a vibrant, competitive banking industry which will maximize choice for our consumers and benefit our communities.

The Committee's invitation requested that my testimony comment on three specific issues. I am happy to do so given Massachusetts' longer history than most in experiencing interstate acquisitions. My testimony comments on the status of jobs within the banking sector and the Commonwealth's ability to determine whether prior agreements and commitments have been met. Massachusetts has its own bank holding company statute (G.L. c. 167A) and Community Reinvestment Act (CRA) (G.L. c. 167, s. 14). I will address any differences between these laws and federal acts and comment

on how I believe their existing scope has allowed the Commonwealth to have a meaningful role in these acquisitions and mergers.

By way of background, Massachusetts passed the first regional interstate banking act in 1982. This law provided for a regional compact among the New England states for holding company transactions on a reciprocal basis. It was used as a model for laws enacted in several other states for interstate holding company acquisitions within specified geographic regions. Upon challenge, the Massachusetts Act was held constitutional by the United States Supreme Court. As is often the case under the dual banking system, such laws allowed the states to experiment with interstate banking. The results could then serve as a basis for any broadening or expansion to nationwide banking. Additionally, regional compacts would allow for the growth of regional multi-state bank holding companies to be more able to compete with money center holding companies.

After a number of regional transactions, Massachusetts eliminated the regional restriction and passed a nationwide interstate holding company law in 1990. Four years after Massachusetts passed its nationwide interstate law, Congress passed the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 providing for nationwide banking. Massachusetts adjusted its law in 1996. This brief history of the development of the Massachusetts interstate banking laws established that the rules for nationwide holding company acquisitions have essentially been well settled since 1990.

The Massachusetts state bank holding company act requires bank holding company transactions to be approved by the Commonwealth's Board of Bank

Incorporation. I chair the three-member Board which also includes the Commissioner of Revenue and the State Treasurer.

Of significant importance is the fact that the state's bank holding company law applies to all acquisitions of Massachusetts holding companies as well as banks, regardless of whether the bank is state or federally chartered. This provides the significant benefit of local review of certain transactions that would in many other jurisdictions only require the approval of the federal government. The existence of this law is why Massachusetts has had a role in reviewing and approving some significant transactions in the past few years even though state-chartered banks were not involved. Under existing procedures, an application addressing twenty areas of interest and statutory criteria is required to be submitted. The holding company law requires the Board to hold a public hearing. The Board often holds the hearing in the area most impacted by the proposed merger. A public comment period is provided as well.

Massachusetts statutory approval requirements closely parallel the existing federal rules governing bank holding company transactions. Specifically, the Board is required to determine whether or not competition among banking institutions will be unreasonably affected and whether or not public convenience and advantage will be promoted. In making such a determination, the Board considers a showing of net new benefits. The Massachusetts statute defines net new benefits as including: initial capital investments; job creation plans; consumer and business services; commitments to maintain and open branch offices; and other matters as the Board may deem necessary.

Other factors are also considered by the Board, including the Community Reinvestment Act rating of each bank or subsidiary bank of a bank holding company

involved in a transaction. In addition, the law requires that a bank holding company pledge ninety hundredths of one percent of the assets located in the Commonwealth to be made available for low cost loans through the Massachusetts Housing Partnership Fund (Fund). The law also requires that the Board receive notice from the Fund that satisfactory arrangements have been made on that requirement before it approves a transaction. The activities of that Fund were recognized and preserved in a provision included in the Riegle-Neal Act.

The Board also considers loan, investment, and other commitments made during the application process. As a means towards reviewing these future-looking commitments, the Board relies heavily upon the past performance of banks in meeting similar prior commitments. These issues are a specific area of inquiry by the Board when the holding company again comes before the Board for a subsequent acquisition. Nevertheless, the Board has held that future planned CRA-related activities do not substitute for the past record of performance of applicant banks. Accordingly, it is the past record and available performance ratings from regulatory agencies that receive the greatest weight in consideration of a proposed transaction.

Not unlike the rest of the country, Massachusetts has seen substantial consolidation within the banking market during the past 20 years. However, while the number of banks in Massachusetts has decreased by over 30 percent since 1980, the total combined assets of Massachusetts state-chartered banks have increased fourfold during this period. Moreover, despite this significant consolidation, employment studies indicate that the number of jobs tied to the Massachusetts banking industry has increased dramatically in the past 20 years. This demonstrates that consolidation has allowed banks

to grow and gain financial strength thereby allowing banks to be more competitive, add branch offices and additional lines of business. This in turn has allowed banks to increase their employment bases over time despite cases in which layoffs have occurred at the consummation of many mergers.

Moreover, the rate of consolidation has not been as great in Massachusetts as it has been nationally. As a result, a significant degree of banking choice remains in the Commonwealth which greatly benefits Massachusetts consumers. I believe that the reason Massachusetts has been somewhat insulated from a greater degree of consolidation is the number of banks that have maintained their mutual form of ownership and their community focus. Certainly mutual banks are more immune to takeover efforts. Moreover, during uncertain times, mutual banks are insulated from the pressure of greater risk taking in an effort to deliver higher rates of return to investors.

Over the last several years, there has been a healthy growth in bank assets. However, as a result of nearly 20 years of consolidation, a bifurcated system has emerged both locally and nationally which generally includes a small number of very large banks operating on a nationwide basis and a large number of small community banks generally operating in a small number of communities within a state or perhaps a few states. The existence of very large banks operating on a nationwide basis has been authorized by federal and state law, and reviewed and approved by federal and/or state regulatory agencies subject to the various criteria established under those laws. As with the intended purpose of the New England Banking Compact, all of us – legislators and regulators – recognized there could be benefits if, like other financial service entities, the banking system operated on a nationwide basis. I appreciate and recognize the Committee on

Financial Services' decision to take some time to review and understand the impact of these laws, regulatory approvals, and consummated mergers on all interested parties. I also encourage the Committee to use this review as an opportunity to consider what may need to be done at the federal and state level to foster a banking system that remains receptive to both banks operating throughout the nation or on a regional basis as well as smaller community banks.

There is a significant benefit to maintaining the level of banking choice that exists in today's banking market. The threat that persists is the ultimate nationalization of the United States banking system resulting in a few large banking organizations accountable only to the federal government with little or no local accountability. Such a reduction in competition would undoubtedly impact both pricing and service. Moreover, the incentive for a large national company to be in tune with local community needs on a continuous basis is also unclear.

Accordingly, we must confront the issue before us as to how to best position our community banks to be able to effectively compete against larger nationwide bank competitors to ensure that consumers continue to enjoy the advantage that the multiple banking options currently available provide. Allow me to briefly share with you some of my thoughts on this matter.

First, regulators and state legislators need to work to ensure a competitive environment exists for our state-chartered banks. This can be accomplished by ensuring the state banking code is regularly updated and does not place state-chartered banks at a competitive disadvantage with their federally chartered counterparts. This requires the balancing of supervisory and consumer protection objectives while also best positioning

our state-chartered banks to effectively compete in an increasingly competitive marketplace.

As part of this process, state banking departments need to strive to ensure that they complete their supervisory duties while minimizing, as best as possible, examination-related regulatory burden, increase agency efficiency, and maintain a qualified, professional examination staff capable of supervising an increasingly complex financial services industry.

Second, regulators, state legislatures, and Congress need to recognize the overwhelming and growing compliance burden the banking industry is facing and its disproportionate effect on smaller institutions. The Community Reinvestment Act, the Home Mortgage Disclosure Act, Truth-in-Lending, Truth-in-Savings, the Bank Secrecy Act, the Patriot Act, and numerous other laws are sound and were passed for good reasons. Many of these laws, in fact, have their roots in Massachusetts. However, the growing cumulative weight of these and other laws and regulations is crushing small banks. For community banks, the costs to comply with the litany of federal and state laws and regulations threaten not only their ability to compete with their larger counterparts and serve customer and community needs, but also their own viability. I am sure you will agree that there is something wrong when a 15 employee bank has 6 employees dedicated solely to regulatory compliance.

Accordingly, there needs to be a means of regularly reviewing laws and regulations for their continued relevance. Moreover, the ability of smaller banks to comply with mandates more appropriate for larger financial institutions needs to be taken into account. When drafting new laws, consideration must also be given as to whether or

not smaller banks are engaging in the very practices these laws and regulations are designed to address.

Third, thought should be given to requiring that community banks receive preference in the process to purchase or lease branches closed or divested as a result of a bank merger. Assuming competitive bids are provided, this will allow community banks to expand their branch networks, increase competition, maximize banking choice, and perhaps provide continuing employment opportunities for existing branch personnel at locations slated to be closed.

And finally, Congress needs to continue to be vigilant relative to efforts of federal bank regulatory agencies to preempt state consumer protection laws. Too often lately, certain federal bank regulatory agencies have taken action to shield national banks, federal thrifts, and their subsidiaries from state consumer protection laws without the benefit of Congressional hearings or consideration. We should question what public policy goals such actions further. Should federal preemption efforts continue, not only will consumer protection efforts be weakened, but federally chartered banks will certainly gain an even greater advantage over their smaller state bank counterparts resulting most likely in the end of the community banking system and our nation's centuries' old dual banking system.

I would be happy to answer any questions the Committee may have.

Statement of Irene Baldwin
Executive Director
Association for Neighborhood & Housing Development Inc

Before The
U.S. House of Representatives
Committee on Financial Services
December 14, 2004

"Banks, Mergers, and the Affected Communities"

Chairman Bachus, Ranking Member Frank, members of the Financial Services Committee and other members of Congress, thank you for the opportunity to submit testimony about the important issue of bank mergers and their impact on communities. New York City, where our agency is based, has been hit by wave upon wave of bank consolidations in recent years. The trend towards increasingly large financial institutions has had a very real and often negative effect on our communities, and we are grateful that the Committee has turned its attention to this growing problem.

Our comments will be focused on recent JPMorgan Chase mergers and their impact on New York City communities.

About ANHD

The Association for Neighborhood & Housing Development (ANHD) is a membership organization of New York City non-profit neighborhood housing groups. We were formed in 1974 and today we have 93 active members, based in neighborhoods in all five boroughs of the City, representing both the most established community organizations and also younger, emerging neighborhood groups.

Our mission is to ensure decent housing and neighborhoods for the people of NYC, especially poor and working class people. We believe that the best way to achieve this mission is to support the work of those non-profit groups rooted in the community. We work with our member organizations to develop a local housing policy/advocacy agenda which is

responsive to the needs and priorities of our diverse communities and we try to speak with a unified voice in promoting that agenda.

Many of our member groups came into being around the same time as the Community Reinvestment Act. These groups were created for the same reasons as the CRA: to turn around an epidemic of housing abandonment and fierce neighborhood blight brought on mostly by financial disinvestment. Over the past twenty-five years, thanks in large part to the Act, banks have returned to our neighborhoods and have become prominent partners in community revitalization. But now, with the transformation of the financial services industry in recent years and with the expansion of our area banks into national and even global financial institutions, many of these important partners are not as well positioned as they once were to respond to neighborhood priorities and community credit needs. With the health and future of our neighborhoods so intertwined with that of the Community Reinvestment Act, we believe the CRA needs to be more effectively enforced in the context of the new banking landscape.

Summary of ANHD Testimony

ANHD's testimony will focus on our experiences with JPMorgan Chase/Bank One in New York City as it relates to the following issues:

- Community development and CRA-related commitments made by the bank during recent mergers and the extent to which those commitments are currently being met.
- Adequacy of current laws to provide sufficient criteria to review the impact of bank mergers on communities and to ensure that communities' interests are protected after the merger.

Overview of Past Community Development Commitments of JPMorgan Chase

As noted earlier, it is a particular concern to ANHD members that, as our local banks have merged, the larger institutions have become less responsive to community needs and priorities. This is a fairly new problem which has only come to ANHD's attention in the past two or three years. The story of JPMorgan Chase in NYC offers a good example of the challenges financial institutions face in addressing community development needs as their scope becomes national and global.

At the time of its merger with Morgan, Chase Manhattan Bank had been considered a leader in community development in New York City for

many years. Always one of our largest retail banks, it was also considered by many to be the dominant bank in community development. As we noted in comments submitted to the Federal Reserve in March 2004:

> *"Traditionally, Chase had been considered the premier community development lender and investor in our neighborhoods. Community-based organizations used Chase (and still do) for their banking services; Chase was the lender of choice for community development real estate loans and lines of credit. Chase also had strong affordable mortgage programming and was a leading partner with community groups in increasing homeownership opportunities for underserved constituencies. In addition, Chase was considered a leading philanthropic funder of community-based organizations in support of affordable housing and neighborhood revitalization initiatives."*

(A copy of the March 2004 comment letter is attached to this statement as Attachment 1).

Morgan Guaranty Bank had also been very well regarded as a strong investor in low-income neighborhoods. Its programs and initiatives were different from Chase's; in contrast to Chase's extensive direct lending to community groups, Morgan CDC did a great deal of indirect lending and investment through intermediaries. Morgan played an advisory role in helping to design and structure new community development initiatives and it assumed a leadership role in financing those projects and in attracting other investors. Morgan's advisory and investment services were not replicated by any other financial institutions in the City at that time. Both Chase and Morgan also had very generous grant programs which, as with their lending, varied in strategy and priorities.

In November, 2000, after Chase applied to the Federal Reserve for approval to purchase Morgan, ANHD submitted comments to the Fed which noted the exemplary community development programs of each of the two banks. Our comments also noted our fear that some of Morgan's programs would be eliminated as a result of the merger. We were also concerned, even at that time, that as the bank expanded its regional and national presence, its community development focus in New York City would diminish. (A copy of the November 2000 comment letter is attached to this statement as Attachment 2).

On November 30, 2000, ANHD leadership met with the JPMorgan Chase Vice Chairman for the retail bank, as well as with various Chase staff, to discuss the issues we raised in our comment letter. At that meeting, the bank promised to preserve all of the staff and programs of Morgan CDC.

Bank representatives also promised to maintain within the merged institution the existing levels of community development lending and investment of the separate banks. And, importantly, the bank proposed a community development organizational structure which we thought supported effective community development programming.

Over the course of the next three years, there were a number of changes at the bank. Then, in early 2004, when JPMorgan Chase applied to acquire Bank One, ANHD again submitted comments to the Federal Reserve regarding the merger; this time, however, the tone of those comments was very different.

When we reached out in 2004 to our community organizations to learn about their recent experiences with JPMorgan Chase, we received substantially more negative criticism than we saw during the previous merger. There was a sense that while Chase was still in many ways a strong and committed partner, it was less able to support community development efforts on a neighborhood level. Its Community Development Group had become decentralized and had lost staff and resources and the bank was less effective in working with community groups. It was feared that with the planned merger and the relocation of the bank's retail headquarters, these problems would be exacerbated. ANHD also had a very particular concern that the bank did not honor many of the promises it had made to community groups at the time of the Chase and Morgan merger.

What was most dramatic to us was how quickly the bank's performance changed from 2001 to 2004.

Community development and CRA-related commitments made by JPMorgan Chase during recent mergers and the extent to which those commitments are currently being met

When ANHD members met with JPMorgan Chase representatives in November 2000, the bank promised the following:

- It would preserve the staff and programs of Morgan CDC.
- It would maintain a centralized Community Development Group appropriately situated within the bank to coordinate and deliver a full range of community development products and services. (*This was a very important issue to ANHD members- an effective organizational structure is as critical to good community development programs as the commitment of financial resources*)

- It would maintain the existing levels of community development lending and investment of both Morgan and Chase, with an eye towards increasing those levels if the bank's profitability improved.

The bank failed to honor these promises:

- Within a year, the entire staff of Morgan CDC were gone and were not replaced
- Over the next three years, the Chase Community Development Group was gradually broken down: The Foundation was taken out of the Community Development Group and moved to public relations, the Affordable Mortgage division was eliminated, the Morgan CDC programs no longer existed and there was substantial shrinkage in staff.
- Two years after the merger, the Chase Foundation reduced its philanthropic budget by 10% and shifted resources away from community development into other interest areas. And, at least from the experience of our membership, the bank is no longer lending to community groups at levels it had in the past.

We had several meetings with bank representatives over the past three years, at which time we reminded them of their earlier promises; each time we were told, for varying reasons, that the bank would not be honoring those commitments.

Adequacy of current laws to provide sufficient criteria to review the impact of bank mergers on communities and to ensure that communities' interests are protected after the merger

The Community Reinvestment Act plays a pivotal role in ensuring financial investment in low-income communities. The broad nature of its mandate gives banks and communities the flexibility to craft products and services to meet the specific needs of particular communities. However, this same broad mandate makes it difficult to set threshold standards of performance for financial institutions. As applied, it is not very effective in protecting communities' interests after a bank merger.

ANHD routinely submits comments to federal regulators when a major New York City bank seeks approval to merge. We have always found it very easy to comment on a merger; the staff at the agencies are always very helpful in providing us with information we need regarding the application and there are no rigid rules as to the form of the comment.

The fact that banks' CRA performance is a factor in approving an application makes banks much more willing to meet with community representatives during the course of the merger. It also provides an incentive for banks to make increased commitments at that time to low-income communities; for example, the recent JPMorgan Chase/Bank One commitment of $800 billion dollars over ten years to low- and moderate-income communities.

Current Laws Need Reform

Despite the important role the CRA plays in encouraging financial investment in low- and moderate-income communities, there are many weaknesses in the current laws' ability to protect community interests after a merger:

- Since no bank merger in recent memory has ever been turned down because of the banks' poor CRA performance, it leads one to question whether the law is in fact being rigorously enforced.
- The application review process seems to rely over-heavily on past CRA performance. In the JPMorgan Chase/Bank One approval order, a number of very substantial concerns were raised by commenters. The approval order sets out these concerns, but does not respond to them; it instead discusses how the banks' most recent CRA evaluations would weigh most heavily in its decision. This approach seems to make the whole public comment process rather pointless.
- The regulators do not enforce CRA commitments, even those made in the course of obtaining approval for a merger. In the case of JPMorgan Chase, ANHD submitted written comments to the Federal Reserve in 2000 documenting our concerns with the Chase/Morgan merger. Then, after the bank made certain commitments to us, we also forwarded that information to the regulators. In 2004, our comments to the regulators on the JPMorgan Chase/Bank One merger described in some detail our difficulties in getting Chase to honor the commitments made in the earlier merger. None of these generated any response from the regulators (nor did we expect them to). ANHD generally relies on the good-faith of the financial institution to carry out any commitments it makes.
- Banks are not required to generate prospective CRA plans as part of the merger process. In the case of JPMorgan Chase/ Bank One, ANHD, along with advocates around the country, urged Chase/Bank One to develop detailed, specific CRA plans for each of its major markets, including New York City. We recommended the bank adopt for NYC a formal, written CRA plan with clear lending and investment targets, timelines and outcomes, by which

Chase, its regulators and the public could monitor and evaluate the bank's performance. The bank did not generate such plans. JPMorgan Chase/Bank One did announce a 10 year $800 billion dollar CRA commitment in April, which is the most ambitious CRA commitment ever, and very exciting. However, the commitment is very broadstrokes and it is impossible to evaluate or monitor to what extent it will benefit New York City's communities, or the local communities in Chase's other markets.

Conclusion

As the trend towards bank consolidations continues, the impacts of mergers on local communities will become more visible. While JPMorgan Chase remains committed to community development in New York City and is still a very prominent investor in low-income neighborhoods, it plays a lesser role than it once did. We believe the challenges the bank faces are due to its very large size; it is not as well positioned to respond to neighborhood priorities as it was when its market was local. Other large banks have the same constraints, and we expect this situation to worsen as these large mergers continue. As part of the solution to this complex problem, we will need regulatory and legislative reform which encourages very large banks to remain accountable to local communities.

ASSOCIATION FOR NEIGHBORHOOD & HOUSING DEVELOPMENT INC.
305 Seventh Avenue, Suite 2001, New York, NY 10001-6008 (212) 463-9600 Fax: (212) 463-9606

Attachment 1

March 13, 2004

Jennifer Johnson
Secretary
Board of Governors
Federal Reserve System
20th Street & Constitution Avenue N.W.
Washington, DC 20551

COMMENTS REGARDING THE PROPOSED MERGER OF JPMORGAN CHASE AND BANK ONE

Dear Secretary Johnson,

ANHD urges the Federal Reserve Bank to condition approval of the JPMorgan Chase/Bank One merger upon specific commitments by JPMorgan Chase to substantially strengthen its community development/CRA programs and initiatives in New York City.

Because of the immense impact this merger would have on low-income communities around the country, we also join other commenters in urging the Federal Reserve to hold public hearings in each of JPMorgan Chase & Bank One's major markets.

Summary:

The Association for Neighborhood & Housing Development (ANHD) is a 30 year old non-profit coalition of 102 New York City neighborhood-based housing groups. Collectively and individually, our members are very familiar with JPMorgan Chase's community development programs and how they compare with those of other New York City financial institutions.

These comments are based on our direct experiences with JPMorgan Chase over the past three years, on meetings and discussions we have had with JPMorgan Chase staff and leadership during that period, and on comments and information we solicited from our membership regarding their perceptions of Chase's community development & CRA strengths and weaknesses.

With 200 branches in the five boroughs, JPMorgan Chase Bank is far and away New York City's largest retail bank. Chase in its current configuration is the result of mergers with several NYC retail banks over the past fifteen years. Traditionally, as Chase has absorbed all these other local financial institutions, it has been able to grow its community development programs to become a strong partner in our neighborhoods as well as a citywide leader in community development. However, since the last merger, the acquisition by Chase of JPMorgan, we have seen a retrenchment from this role and JPMorgan Chase has become a less visible presence on a neighborhood level. We are concerned that the pending merger, and the relocation of the bank's retail financial services headquarters to Chicago, will exacerbate this disturbing trend to the great detriment of New York City's neighborhoods.

Issues:

Our core concerns and issues are as follows

- JPMorgan Chase's organizational structure, through recent reorganizations, limits its ability to establish effective partnerships on a neighborhood level.
- JPMorgan Chase's community development programs have become less responsive in recent years to the priorities and needs of NYC's low-income neighborhoods.
- JPMorgan Chase did not fully honor certain commitments it made to community groups around its last merger. We fear the same will occur with this pending merger.

Discussion:

In various conversations and meetings the ANHD membership has had with Chase leadership over the past three years, the bank has made it clear it considers itself more and more a national, or even global, institution, and it has restructured its programs and products accordingly. As a result, in community development, JPMorgan Chase now works more and more with large intermediaries and regional and national organizations and less with community-based groups.

But despite JPMorgan Chase's growing national presence, it is still NYC's largest neighborhood banking network. Traditionally, Chase had been considered the premier community development lender and investor in our neighborhoods. Community-based organizations used Chase (and still do) for their banking services; Chase was the lender of choice for community development real estate loans and lines of credit. Chase also had strong affordable mortgage programming and was a leading partner with community groups in increasing homeownership opportunities for underserved constituencies. In addition, Chase was considered a leading

philanthropic funder of community-based organizations in support of affordable housing and neighborhood revitalization initiatives.

Today, this is no longer the case. Fleet, with only a fraction of Chase's branches, originates more community development loans in NYC. Chase no longer has an affordable mortgage division and it lags behind other local lenders in its home lending to minorities. All of the other major financial institutions allocate a far greater percentage of their philanthropic budget to affordable housing and neighborhood revitalization than does Chase.

While Chase is still in many ways a strong and committed partner in community development, it has surrendered the leadership role it once held and which is expected of it as the City's largest bank. We hope that, as part of this merger, and as the bank reorganizes yet again, it can recommit to New York City, and especially to the City's low-income neighborhoods.

Structural Issues:

When Chase was at its most effective, it had a strong, centralized community development group. Community development lending and investment, affordable mortgage programs and community development philanthropy were all housed within the group and this enabled the bank to develop strong, seamless partnerships in low-income communities. Neighborhood organizations were able to develop good working relationships with loan officers and other Chase staff to respond to emerging community credit needs and priorities.

When Chase acquired JPMorgan towards the end of 2000, ANHD leadership met with David Coulter, who was at the time the Chase Vice-Chairman for National Consumer Finance. At that meeting, Mr. Coulter committed to, among other things, maintaining a centralized group which coordinated and delivered the full range of community development products and services of the two merging banks. (*See attached letter from ANHD to David Coulter dated December 8, 2000*).

However, a year after making that commitment, the programs of the Morgan CDC were discontinued. That same year, the Chase Foundation was moved out of the Community Development Group and housed instead in public relations. Then in 2003, the Community Development Group eliminated its affordable mortgage division; affordable mortgage programs, insofar as they still exist, are now delivered out of the bank's mortgage company, which we believe operates out of Ohio.

While this fragmentation of the community development group and its programs was taking place, the bank was at the same time cutting back

on staff resources for these initiatives. The entire staff of Morgan CDC left the bank and was not replaced. The Chase Foundation once had eight staff, now it only has three dedicated to New York City philanthropy.

This downsizing has had a very real impact on Chase's community development programming. Community development grantmaking is now done entirely electronically- proposals can only be submitted on-line; responses are delivered via e-mail. Chase grantees routinely go years without speaking to a human being at the bank; grantmaking as a result has become less strategic and the grant process more error-prone.

A number of ANHD's CDC members, those who develop affordable housing, have found that it has become more difficult to obtain community development loans from the bank. It was noted that loan officers are no longer able to work as closely as they once did with community-based organizations to move a loan proposal through Chase's approval process. As a result, Chase is making fewer loans to community-based organizations.

Programmatic Concerns:

The structural problems highlighted above, along with a reduction in financial resources, have visibly weakened JPMorgan Chase's community development programs and services.

Community development lending: While Chase remains a major community development lender in New York City, most of its lending is now to large intermediaries and for-profit developers, moving away from direct lending to community organizations. Community-based housing groups have identified a continuing need for direct lending, particularly for affordable housing, and Chase needs to rebuild its programs in this area to meet this critical need.

Community development grantmaking: Chase is a very generous supporter of a range of charitable initiatives in New York City; its CRA-eligible grant support in NYC last year was $13 million. (With an additional $2 million to the United Way.) We recognize Chase's overall generosity, but it has been an ongoing concern of the ANHD membership that Chase's CRA-related grantmaking is no longer tied to core community priorities.

Of greatest concern is the minimal amount of funding Chase provides for affordable housing programs. The most recent CRA evaluation of Chase (9/2003) recognized that funding for affordable housing programs and initiatives is a core community credit need in New York City, particularly in our low- and moderate-income communities. While other

financial institutions acknowledge and respond to this need Chase allocates less than 15% of its CRA-grant budget to affordable housing efforts. Over the past three years, the bank's United Way contribution far exceeded its support for affordable housing programs. *See attached letter from Mark Willis dated 2/18/2004.* By comparison, HSBC, Washington Mutual, Bank of New York and M&T Bank each confirmed that at least 50% of their NYC CRA grant budget last year was targeted to affordable housing. (One bank dedicated 80% of its grant budget to this critical issue).

Just as Chase has been shifting its lending efforts towards large intermediaries and away from community-based organizations, it is doing the same in its grantmaking. Many of the local banks Chase has acquired once provided significant grant support to community-based organizations; they were in fact central sources of funding for neighborhood groups. Today, few of these organizations receive anywhere near a comparable level of support from JPMorgan Chase as they did from the predecessor banks. Chase's shifting priorities and its reduction of support to community-based organizations has created real hardships for these neighborhood groups.

Affordable Mortgage Lending: ANHD received very positive comments from community groups about Chase's affordable mortgage products and programs. Chase was considered one of the major home lenders in many neighborhoods, and those organizations with homeownership programs reported that Chase had responsive loan officers and good products. Neighborhood groups considered Chase an excellent partner in their efforts to increase homeownership opportunities for poor and working people.

However, there are some broader issues around Chase's home mortgage lending. According to research by the National Community Reinvestment Coalition, Chase seriously underperformed compared to NYC lenders as a whole in its level of lending to African American or Latino borrowers and in minority communities. In 2002, 16% of Chase's single family loans were to black or Latino borrowers, compared to 19% by lenders as a whole. It fared even worse in lending in minority census tracts: only 20% of its lending was made in those tracts compared to 26% by lenders as a whole. Further, the bank's last CRA evaluation noted that it was only "adequate" in lending to low-income and moderate-income borrowers in the New York MSA.

Community groups have also reported that they are seeing a rise in foreclosures by Chase on 1-4 family homes in their neighborhoods; the foreclosure rates exceed those of other major lenders in the community. ANHD first raised this issue at a meeting with Vice Chairman Donald Layton in February 2003 and then at ensuing meetings, most recently at

a January 2004 meeting with Chase leadership. The problem is still not resolved; Chase needs to work with community organizations to establish a solid foreclosure prevention effort to reverse this very troubling and destabilizing trend in our communities.

Monitoring Chase Commitments:

We would strongly urge the Federal Reserve to insist on a transparent monitoring and reporting process for any commitments Chase may make in the course of this merger.

As we noted in other sections of this comment, Chase made several commitments to the ANHD membership at the time of its merger with Morgan. This was not a formal CRA agreement, but (we thought) a good faith commitment by the bank to its community partners. Within two years, Chase unabashedly and unapologetically reneged on almost all of its promises.

ANHD has also found it very difficult to obtain specific information from Chase on its CRA-related programs and activities. As the attached correspondence reflects, we have repeatedly asked for budgets or targets on Chase's community development lending, investments and grants; we never receive this requested information. We run into a similar obstacle when we ask for details on past performance. For some time, we have raised the concern that Chase is decreasing its lending and grant support for community-based groups. We have made straightforward requests for information on the number and percentage of Chase's loans and grants to community organizations; we have not been able to obtain this information either.

In the past, Chase would generally provide very detailed information on its CRA-related activities upon request. This reluctance to provide specifics on its community development efforts is fairly recent. Without this basic information, it is very difficult for communities and advocates to intelligently evaluate or comment on the bank's CRA performance. We hope Chase will again begin to provide this information to the public.

Recommendations:

1. **Public Hearings:** We strongly urge the Federal Reserve to hold public hearings on this proposed merger. We discussed above our difficulties in obtaining details from Chase on its CRA-related lending and investments; we suspect other interested stakeholders face the same problem. Public hearings which fully explore Chase's CRA activities would give all of us the information we need to evaluate the bank's CRA performance and, more importantly, the impact of this merger on our communities.

2. **CRA Plans:** We also urge as a condition of this merger, that Chase/Bank One develop detailed, specific CRA plans for each of its major markets, including New York City. As we also discussed above, we do not believe that Chase honored all of the promises it made during previous mergers. To avoid this occurring again, we recommend the bank adopt for NYC a formal, written CRA plan with clear lending and investment targets, timelines and outcomes, by which Chase, its regulators and the public can monitor and evaluate the bank's performance.

3. **Community Development Structure:** We further recommend that JPMorgan Chase establish a community development structure which effectively supports neighborhood needs and priorities. For NYC, we recommend that Chase re-establish a centralized community development group within which is housed community development lending, philanthropy and affordable mortgages. Staffing needs to be expanded so that Chase may begin to re-establish relationships and partnerships with communities and community groups to carry out successful neighborhood-centered community development programs in our low income communities.

4. **Community Development Programs:**
   Lending: We recommend that Chase strengthen its capacity to undertake direct lending to community-based organizations, particularly in the area of affordable housing. We recommend that Chase establish as a target making at least half of its community development loans to community-based organizations.

   Philanthropy: Here, too, we recommend that Chase re-establish its connections to the City's neighborhoods. We recommend, again, that at least 50% of Chase's CRA-related grants be awarded directly to neighborhood-based organizations. We also recommend that Chase better focus its grantmaking on community priorities. Like its peers, the bank should allocate at least 50% of its CRA grant budget in NYC to affordable housing. Finally, Chase should increase it overall grant budget. In its merger application, Chase noted it would increase its contributions in Chicago; it was silent as to any increased support elsewhere. In keeping with its planned growth, Chase should increase its CRA-eligible philanthropy in NYC by 40%, the amount Bank of America committed to in its recent merger.

   Affordable Mortgage Programs: This is an area of tremendous concern to ANHD. In our comments we noted real strengths and real weaknesses in Chase's mortgage lending. With the recent dismantling of the affordable mortgage division, it is not clear to us

that Chase will be able to maintain the strong partnerships it has with housing counseling organizations in New York City's low-income neighborhoods. We are equally concerned that Chase will not be able to turn around its rising foreclosure rates without a strong local foreclosure prevention program. We recommend that Chase re-establish its affordable mortgage division and work with community partners to strengthen and expand its homeownership programs and foreclosure prevention efforts.

Conclusion:

As we have tried to communicate throughout this comment, Chase had traditionally been the leader in community development among New York City financial institutions. Chase was once the model by which we measured other local banks. As it grew and expanded through different mergers over the years, it became an increasingly prominent institution in our City's neighborhoods. However, the bank's continued growth has most recently had the opposite effect; it has reached a scale where it is less able and interested in establishing and maintaining community partnerships. Although our City's largest bank is still prominent in community development, it has abdicated its leadership role. We are very concerned that yet another expansion, particularly one which will greatly extend the bank's geographic reach and move the retail bank's headquarters to Chicago, will create even more distance between Chase and its communities.

We are hopeful, though, that Chase will choose to recommit to its communities. With the increased resources of the merged institution, the bank could once again become the leader in community development that it once was. ANHD and its membership would be eager to work with JPMorgan Chase to help them accomplish this.

Sincerely,

Irene Baldwin
Executive Director

cc: J. Bernstein, FRB
E. Rodriguez, FRB
M. Willis, JPMorgan Chase

attachments

ASSOCIATION FOR NEIGHBORHOOD & HOUSING DEVELOPMENT INC.
305 Seventh Avenue, Suite 2001, New York, NY 10001-6008 (212) 463-9600 Fax: (212) 463-9606

Attachment 2

November 13, 2000

Jennifer Johnson
Secretary
Board of Governors
Federal Reserve System
20th Street & Constitution Avenue N.W.
Washington, DC 20551

COMMENTS REGARDING THE PROPOSED ACQUISITION BY THE CHASE MANHATTAN CORPORATION OF JP MORGAN and the MERGER OF CHASE MANHATTAN BANK and MORGAN GUARANTY TRUST

Dear Secretary Johnson,

Below are preliminary comments from the Association for Neighborhood and Housing Development (ANHD) regarding the proposed merger of Chase Manhattan Corporation and JP Morgan. These comments were faxed to the Federal Reserve Bank of New York on November 13, 2000.

ANHD has a number of comments and concerns regarding this merger and we are meeting with David Coulter, National Consumer Finance Vice Chairman at Chase on November 30, to discuss these issues. We will also submit supplemental comments to the Federal Reserve Bank by December 7, based on the outcomes of this meeting.

Background on ANHD:

The Association for Neighborhood and Housing Development (ANHD) is a non-profit member organization whose membership is composed of ninety five neighborhood-based New York City non-profits engaged in housing, community development and economic development in low and moderate income neighborhoods throughout the five boroughs. Our members work extensively with financial institutions and other partners on a wide range of housing and economic development initiatives in their communities and have a thorough and first hand knowledge of New York City banks' CRA-related activities in their neighborhoods.

Summary of Our Concerns Regarding the Merger

The ANHD membership is deeply concerned about this merger and for reasons that are somewhat different then those raised around other bank mergers. Both Morgan Guaranty Trust Company and Chase Manhattan Bank are true leaders in community development in New York City. Both banks have very substantial levels of lending and investment in the five boroughs of the City and, from a community development perspective, community organizations could not have two better partners in neighborhood revitalization.

Each bank has a very different community development philosophy and strategy and we need each of those strategies to support our neighborhood preservation and housing development efforts. For example, Chase does a great deal of direct lending to New York City community organizations and is probably the leader among area financial institutions in the depth and breadth of its lending and investment in neighborhood-based community development projects. As the merger application noted, Chase provides construction lending, interim financing, permanent loans and letters of credit to finance community-sponsored affordable housing projects in our neighborhoods. It also provides community organizations with cash flow lines of credit and with recoverable grants to support project pre-development costs. Finally, Chase has extensive small business lending initiatives and residential lending programs. Particularly noteworthy is the bank's participation in the New York Mortgage Coalition, a model program to increase access to credit by lower income first time homebuyers.

Morgan CDC, on the other hand, does a great deal of indirect lending and investment. Through partnerships with intermediaries, Morgan has provided technical assistance and financing to create exciting new, large-scale community and economic development initiatives which would simply not have happened without Morgan's presence as the lead investor.

Both banks are also very generous supporters of community organizations; here again, each bank has a somewhat different strategy and philosophy in their grantmaking initiatives, and we highly value each of their efforts. And, in the case of Morgan, that bank also administers several private foundation accounts and it has been very successful at finding funding opportunities for its private clients with an interest in urban affairs in NYC. That link has been a great benefit to nonprofits here.

While in the other businesses of the two institutions it might make a great deal of sense to merge, from a community development perspective, New York City's low income neighborhoods stand a great deal to lose if any of the distinctive programming of each of these banks is lost through the merger.

Because Chase is the acquiring bank, much of our concerns focus on what will happen to JP Morgan's programs after the merger. *(If Morgan were buying Chase, we would have similar concerns about the future of Chase's programs)*. Our major concerns are as follows:

- Morgan CDC is a great asset to New York City communities. According to the intermediaries with whom it partners, Morgan plays an advisory role in helping to actually design and structure new community development initiatives and it assumes a leadership role in financing these initiatives. Morgan is also very successful in attracting other investors to these projects. Many of the non-profit organizations that work with Morgan have indicated that its advisory and investment services are not replicated by any other financial institutions in the City. Examples of its important work in this area are cited in the application: its' role in creating the Primary Care Development Corporation; the bridge financing and gap loans it provides to local equity funds which syndicate Low Income Housing Tax Credits; and its current efforts to syndicate Welfare-To-Work Tax Credits. ANHD would like assurances that the CDC is well integrated into Chase's community development structure and that its budget and resources are maintained post-merger so that it can continue and build on its important work.
- Morgan's grantmaking and Chase's grantmaking have significant areas of overlap (where they both fund the same organizations) and significant areas of departure where each bank has philanthropic initiatives not replicated by the other. A great many New York City community organizations have regularly received each year substantial grants from each of the two banks; a decrease in that support would be a significant blow to these organizations. In addition, Chase has very great breadth of grantmaking; it has been able to reach an extraordinarily large number of community organizations, far beyond the universe of community organizations with whom Morgan works. Further, Chase has a number of special initiatives aimed at critical community development priorities, including its various financial literacy programs and its faith-based community development program. Morgan, on the other hand, has been able to work very closely with a smaller number of organizations and, through its more labor-intensive processes, has been particularly effective in linking its private foundation clients with an interest in NYC community development with these community groups. ANHD would like to know how Chase plans to integrate these two philanthropic programs; community organizations' cannot afford to lose either of these important partners as they meet the challenges of rebuilding and preserving low income neighborhoods.
- JP Morgan's CRA assessment area is New York City; Chase has a much larger assessment area. We are concerned that, over time, even if levels of lending and investment are expanded, the community development focus on New York City will diminish as Chase's regional and national presence grows. We would like a commitment from Chase to preserve and expand on the existing level of grants, loans and investments both Morgan and Chase now make in New York City.
- Chase expects to save money and increase profits as a result of this merger. As the new bank expands its services, it will also be better positioned to expand its community development programming. ANHD believes the new bank should, as a baseline commitment, maintain both Chase and Morgan's current level of lending and investment in New York City for at least five years. The bank should also have a specific strategy in place where, as its profits increase, it appropriately increases its level of lending and investment beyond this baseline level.

We are looking forward to a very productive meeting with Chase and Morgan leadership in December, where we are hopeful that these concerns will be addressed. We will at that time file supplemental comments with the Federal Reserve Bank of New York regarding the impact of this proposed merger on the convenience and needs of New York City's residents and its impact on the CRA-related lending and investment of JP Morgan and Chase.

Sincerely,

Irene Baldwin
Executive Director

Written Testimony Submitted by Sovereign Bank
to be Committee on Financial Services
U.S. House of Representatives
"Banks, Mergers and the Affected Communities"

Hearing to be held on Tuesday, December 14, 2004, 10:00 a.m.
Federal Reserve Bank of Boston

<u>**Table of Contents**</u>

Sovereign Bank

Joseph P. Campanelli
Vice Chairman
Sovereign Bancorp

Joe Campanelli was appointed Vice Chairman of Sovereign Bancorp in September of 2002. He also was named President & COO of Sovereign Bank New England in December of 1999.

As of January 2005, he will assume the title of Chief Executive Officer for Sovereign Bank's New England division. In this role will have total responsibility for all bank operations in the New England region.

In addition to establishing strategy and executing business line initiatives, Joe is also a member of Sovereign Bank's Office of the CEO. He played an active role in the acquisition and conversion of the Fleet divested business units.

Prior to joining Sovereign Bank in September of 1997, Joe spent almost 20 years serving in a variety of executive positions with both Fleet and Shawmut Bank. Over the years, he has been instrumental in establishing key economic development programs with a variety of agencies and industry groups.

An active member of the community, Campanelli serves as a Director of the Commercial Finance Association, Massachusetts Business Development Corporation, Boys and Girls Club of Boston and is a Trustee of Tufts New England Medical Center. He also plays a leadership role with the United Way of Massachusetts Bay, and will serve as the Co-Chair for the organization's 2005 fund drive.

In addition, Campanelli will co-chair the 2005 National Conference for Community Justice. He will also chair the 2005 Heading Home fundraiser for Shelter Inc., an agency that provides housing and other services to homeless families and individuals. He is a member of the Executive Committee with the Boston Minuteman Council of the Boy Scouts of America and the Board of Overseers of the Boston Museum of Science.

Subsequent to graduating from Babson College with high distinction, he began his banking career in Hartford, CT, in 1979. He has remained active with a variety of professional, civic and charitable organizations throughout the region, and is recognized as an innovative leader.

Joe and his wife, Carolyn, reside with their three children in Wellesley, Massachusetts.

DRAFT 12-10-04

The Committee on Financial Services, U.S. House of Representatives
"Banks, Mergers and the Affected Communities"
Federal Reserve Bank of Boston
Tuesday, December 14, 2004
10:00 a.m.

Testimony of Joseph P. Campanelli, President and Chief Operating Officer, Sovereign Bank New England, and Vice Chairman Sovereign Bancorp, Inc.

On behalf of Sovereign Bank New England and Sovereign Bancorp, Inc. I am providing written testimony for the record in addition to my oral testimony provided on December 14, 2004.

I would like to address commitments that Sovereign made during the merger approval process. First let me say, that we met or exceeded our commitments in our recent acquisition of Seacoast Financial Services Corporation

Jobs

Prior to the acquisition, Sovereign projected that approximately 74% of Seacoast's employees would be retained, and all branch staff and other personnel working with customers would be included in those retained. Sovereign also promised that it would consider former Seacoast employees first in filling open positions. Following consummation of the acquisition, approximately 74% of the Seacoast positions were retained. All branch and other personnel working with customers were retained or offered positions. Those employees who were not offered positions received a severance package that included a severance payment, as well as health, dental, and life insurance. Also, they were offered outplacement services through Keystone Associates, an

experienced third party provider. In addition, Sovereign has given preference to Seacoast employees in filling open positions and, to date has placed 20 of those employees.

We cannot deny that there are jobs losses in these transactions. However, we would like to point out that Sovereign offers a greater range of products and services and has a wider geographic reach than the banks it has acquired. It has been our experience that, as a result, many employees of the acquired banks have been able to assume greater responsibility and have higher compensation opportunities.

Commitments

With respect to branches, Sovereign stated that 12 overlapping branch offices would be closed and that all branch personnel in those offices would be retained. In addition, Sovereign agreed to give preference, assuming comparable economic terms were offered, to local community banks or credit unions to purchase a branch office, which is to be closed; and Sovereign also agreed to encourage its landlords to give the same preference on leased premises. Sovereign is meeting these commitments. Following the close of the acquisition, Sovereign did close 12 branches. Seven were Sovereign branches and five were Seacoast branches. All personnel in those branches were offered positions. Sovereign is meeting its commitment to give preference to banks and recently accepted an offer to sell a closed branch to a local community bank.

In this connection, Sovereign also committed that in no case would Sovereign be moving out of any community being served by Seacoast. Sovereign has met that commitment and

is an important presence in all those communities and is doing its best to grow its business in those communities.

Sovereign also addressed capital improvements to branch offices in area served by Seacoast promising to spend approximately $2.4 million. To date, Sovereign has spent $3.1 million for those branch improvements, including adding drive-up ATMs, improving parking lots, building internal offices and improving platform areas.

Sovereign committed that Kevin Champagne, Seacoast's Chief Executive Officer and a Director of Seacoast, would be appointed as a Director of Sovereign Bank. That was accomplished at the Bank's August Board meeting

When Sovereign entered the New England market in March of 2000, the bank publicly made a bank-wide three-year community reinvestment commitment of $3.7 billion dollars. All of these commitments reflect specific allocations in the states where we have a principal banking presence. That goal was exceeded by 150 percent bank-wide and the Massachusetts commitment of $613 million by 175 percent.

The bank entered into an enhanced three-year agreement (2000 – 2002) with the Community Advisory Committee in Massachusetts. We have met or exceeded these commitments.

In addition, we made a public commitment in 2003 for three years (2003 – 2005) of $5 billion bank wide. We are meeting or exceeding those commitments to date. Just ten days ago, we announced Sovereign's Massachusetts Community Investment Agreement for years 2004-2008 for $3.6 billion.

The bank made commitments to the Massachusetts Affordable Housing Alliance to originate Soft Second mortgages for the period 2000 – 2006 for first time homebuyers. We initially found ourselves falling short of the aggressive origination goals. We then took steps to improve our progress by increasing staff and establishing a loan production office in Roxbury, Massachusetts. As a result, we expect to come close to our goal for 2004.

Furthermore, we committed to establishing advisory boards in our principal New England markets. These advisory boards are made up of a diverse group of local community and business leaders. We report on a quarterly basis to these advisory boards on the progress we are making toward achieving these commitments. We currently operate two advisory boards in Massachusetts with three new boards planned for 2005 to help manage our new commitments in the region formerly served by Seacoast.

Sovereign is not eligible for membership in the Federal Home Loan Bank of Boston as Compass Bank was. As a result, Sovereign has been unable to participate in the Bank's Affordable Housing Program. Nevertheless, Sovereign is being as innovative as possible

with the Boston Bank to find a way to gain admittance to the program. We hope to be successful in this effort.

In addition when entering the market in 2000, Sovereign agreed to assume a commitment to the Massachusetts Housing Partnership for $148 million. As a result of recent acquisitions, that has increased by $14 million. Nearly 85 percent of that money has been disbursed for affordable housing at below market rate pricing.

An important concern raised by not for profits groups is the level of charitable support provided to qualified institutions in connection with the Seacoast acquisition. We initially committed $450,000 a year for five years. That has since been enhanced to $600,000 for the Seacoast footprint or $3 million over the next five years. To date, we have made grants in excess of $550,000.

In addition, Sovereign has made an equity investment of $1 million in the South Eastern Economic Development Corporation (SEED) in Taunton that exceeds any of the previous bank commitments by 30 percent. Sovereign is also represented on the board.

I will also note for the record in its most recent CRA examination - performed by the Office of Thrift Supervision, Sovereign Bank received an "Outstanding" – the highest rating.

In the last three months, Sovereign has instituted a management structure that has senior management located within local markets that are able to make decisions quickly and in response to the local lending needs. This change will further strengthen Sovereign's position in local communities

Regulatory

Sovereign believes that present laws do provide sufficient criteria for the **review of the impact of a proposed bank merger** on communities. All depository institutions are required to be periodically examined by their regulator for compliance with the CRA. The regulatory agency to which a merger application is made is specifically required by current law to take into account the CRA performance of both the acquiring institution and the selling institution. The regulatory agencies have authority to deny applications on the grounds of CRA performance alone.

In addition to the review by the regulatory agencies, the public is provided a comment period to file any comments in favor of or against an application. This provides a person time to file a comprehensive comment or protest. A protester can request that a hearing be held on the application to allow the regulators to elicit additional information. Because of the serious delays that a protest and hearing can cause, an institution that is interested in growing by acquisition has an extreme incentive to be very proactive in maintaining an exemplary record.

The protection of a community's interests **after a merger is completed** is similarly well guarded under current law. An acquirer that has not completed its past commitments will

have a very hard time obtaining approval of a new application. The reviewing agency will consider the performance of an applicant with respect to past commitments. Bank management are accomplished business people, who understand that CRA compliance is not only good for the communities in which they live; it is absolutely a business imperative if their banks are going to be able to grow.

Finally, I would like to talk about another program that Sovereign has been involved in that we believe exemplifies what it means to be a corporate partner in the community, especially by providing financing for small business. Roxbury Technology Corporation, a minority-woman-owned company in Jamaica Plain, had been looking for $500,000 in financing to expand the business of reconditioning printer and copier cartridges.

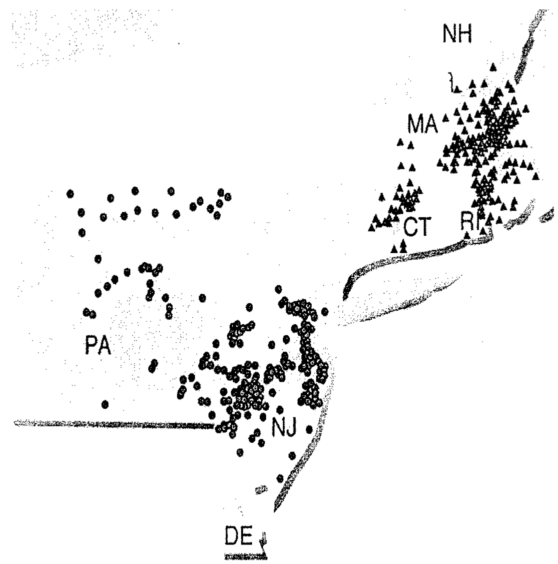
The owner wanted to expand the business. She was turned down for a loan from another bank. The issue was brought to my attention by one of our advisory board members and we made it a priority to help. The office supply company, Staples, also committed to use RTC as its preferred minority-owned business supplier.

We gave her the financing, which will result in the hiring of 10 additional workers over the next year and a projected increase in sales to $8 million annually. Sovereign also took this opportunity to change our office supply vendor to Staples, because we want to have relationships with companies who understand the value of making commitments where they count and their commitment to vendor diversity.

I hope this provides you with a better understanding of Sovereign's commitment to serving local communities through reinvestment, job creation and personal involvement in community affairs. It is Sovereign's firm believe that our success is clearly linked to the health and vitality of the communities in which we live and work.

Thank you once again for inviting me to speak before your committee. I am happy to answer any questions you may have.

###



SOVEREIGN BANK MID-ATLANTIC

SOVEREIGN BANK NEW ENGLAND

SOVEREIGN BANK

Community Reinvestment Plan

A History Of Growth

EQUAL HOUSING LENDER

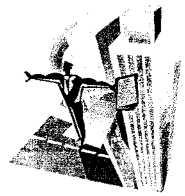
Member FDIC.

Community Investment- A History Of Growth

Sovereign Bank will be the 27th largest bank in the United States with nearly 600 branch offices in seven states spanning from Delaware to New Hampshire. Our growth has primarily been through acquisitions of other financial service companies.

We have always recognized the needs of our communities as being a critical part of our long term success. A major part of our growth is our commitment to provide the necessary financial products and services to low-and moderate-income communities and individuals.

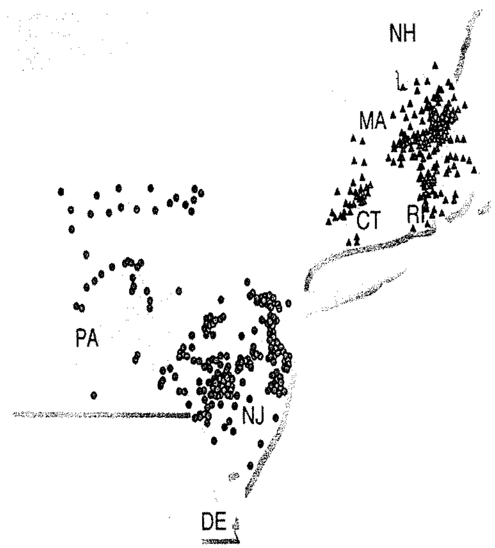
In its community areas, Sovereign Bank is a leader in community reinvestment with over $1.2 billion annually, in loans, investments and contributions to low and moderate income people and areas, reflecting our conviction that we have an opportunity to make a difference.



Community Investment - A History Of Growth *(Cont.)*

We are committed and dedicated to serving the needs of our communities through investment of the Bank's resources and employee participation. We will continue to build mutually beneficial relationships with our customers for the vitality of our communities. Our products and services are designed to improve housing, health care and education while creating and supporting jobs and services in low and moderate-income communities.

We will work closely with community based organizations, business leaders and local governments on community development initiatives that assist low and moderate-income families in need of affordable housing.

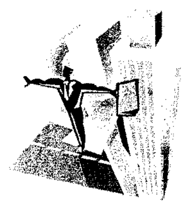


SOVEREIGN BANK MID-ATLANTIC

SOVEREIGN BANK NEW ENGLAND

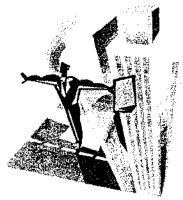
SOVEREIGN BANK

Community Reinvestment Performance



Community Reinvestment Performance

- Over $250 million in small business loans including participation with the U.S. Small Business Administration
- Nearly $1/2 billion in non-secondary marketable affordable mortgage originations
- Over 100 nonprofit relationships with community groups to provide affordable mortgages
- Established regional CRA Advisory Boards of community leaders and nonprofit organizations to support affirmative-lending programs to all citizens in the communities
- Employees volunteer services where they work and live by providing leadership, resources and technical assistance to improve community life
- Over $29 million in equity investments that support affordable housing initiatives and job creation



Community Reinvestment Performance *(Cont.)*

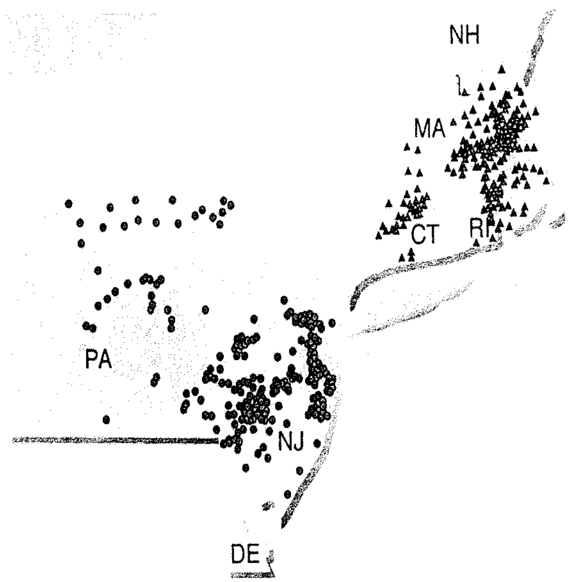
•Developed KidsBank.com a public service Internet site providing educational training to young people on banking

•Participate in micro-lending programs that provide small loans to entrepreneurs and small businesses

•Active investor in Low Income Housing Tax Credits used toward affordable housing developments

•Active participant in the Federal Home Loan Bank's - Pittsburgh Home Buyer Equity program and Community Loan Program for affordable housing

•Chosen by Federal Home Loan Bank - Pittsburgh for pilot program on Predevelopment Lending Pool to support affordable housing developers



SOVEREIGN BANK

Community Reinvestment Plan

2000 through 2002

SOVEREIGN BANK MID-ATLANTIC
SOVEREIGN BANK NEW ENGLAND

Introduction

The acquisition of Fleet/Bank Boston branch offices will expand Sovereign's presence into Connecticut, Massachusetts, Rhode Island and New Hampshire which will significantly expand Sovereign's commitment to support the financial needs of its low-to-moderate income communities. The following charts indicate the growth in each of the products. The mortgage unit in New England reflects its ramp up business. Sovereign has been a leader in community reinvestment activities in Pennsylvania, New Jersey and Delaware markets where Sovereign Bank Mid Atlantic banking services are provided. Sovereign is committed to meet the needs of the communities it serves, through products, services and resources that have resulted in innovative and comprehensive programs.

Accordingly, over the next 3 years, Sovereign commits to make a $3.7 billion investment in mortgages, consumer loans, small business/farm loans, community development loans, investments/contributions, and employee volunteer/service activities to low- to moderate-income individuals and communities in Pennsylvania, New Jersey, Delaware, Massachusetts, Connecticut, New Hampshire and Rhode Island.

Overview

Sovereign Bank's Community Reinvestment Plan (The "Plan") has been developed to address the credit and other banking needs of Pennsylvania, New Jersey, Delaware, Massachusetts, Connecticut, New Hampshire, Rhode Island low- and moderate-income individuals and areas.

The plan is an extension and expansion of Sovereign's Corporate Community Reinvestment Program and Corporate Community Reinvestment Policy, which ensures that all business units of the organization are meeting the credit needs of low- and moderate-income areas in the communities we serve.

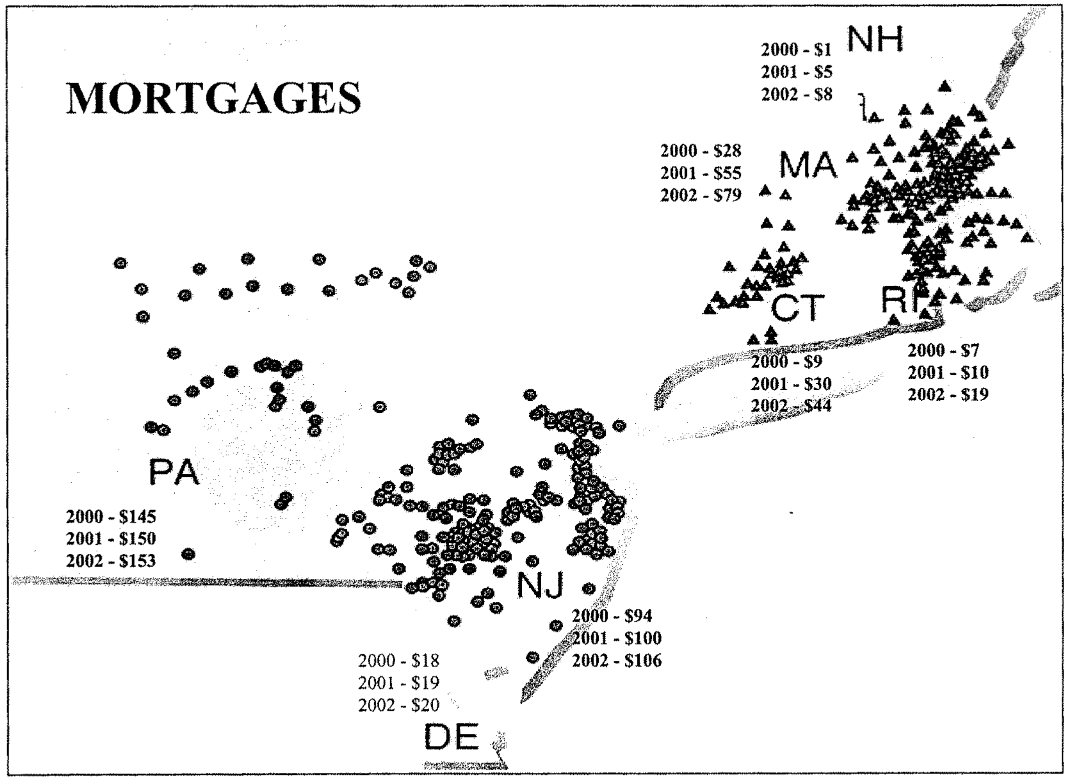
The plan contains the following major components:

•Mortgages
•Consumer Credit
•Small Business/Farm Lending
•Community Development Lending
•Low-Income Housing/Historical Tax Credits
•CRA Contributions/Investments
•Service Commitments
•Advisory Committees/Reporting

Mortgages

Sovereign commits to lend at least $367 million per year for 3 years for a total of $1.1 billion in mortgages to low- and moderate-income communities in Pennsylvania, New Jersey, Delaware, Massachusetts, Connecticut, New Hampshire and Rhode Island.

Sovereign provides specifically designed affordable mortgage products to help meet the needs of our low- and moderate-income customers. Some of the features of these products are: (1) loans with no minimum balance; (2) maximum loan to value financing up to 97% mortgages to purchase a home; (3) debt-to-income ratios of 33 to 40 percent, within specific products; (4) discounted rates; and (5) down payments that may come from loans, gifts and grants. These products are available through all of Sovereign Bank branch offices and Mortgage Loan Offices.


MORTGAGES
NH
2000 - $1
2001 - $5
2002 - $8
MA
2000 - $28
2001 - $55
2002 - $79
CT
2000 - $9
2001 - $30
2002 - $44
RI
2000 - $7
2001 - $10
2002 - $19
PA
2000 - $145
2001 - $150
2002 - $153
NJ
2000 - $94
2001 - $100
2002 - $106
DE
2000 - $18
2001 - $19
2002 - $20

MORTGAGES

$ Million Per Year

STATE	COUNTIES	2000	2001	2002
Pennsylvania	27	145	150	153
New Jersey	21	94	100	106
Delaware	1	18	19	20
Connecticut	7	9	30	44
Massachusetts	14	28	55	79
Rhode Island	5	7	10	19
New Hampshire	2	1	5	8

Revised 3/15/00 12 TOTAL = 1.1 Billion

Mortgage Products

Affordable Home Mortgage Loan

Loan amounts up to 97 percent of a home's value.

Minimum payment of 3 percent - which can come from the borrower's own funds, gifts, grants or other sources.

A waiver of the normal requirement for mortgage insurance.

Flexible credit underwriting criteria and higher debt-to-income ratios.

Community Homebuyers Loan (Fannie Mae)

Loan amounts up to 97 percent of a home's value.

Minimum down payment of 3 percent - must be the borrower's own funds.

Additional down payment and closing costs may be from gifts, grants or other sources.

No minimum loan amount.

Flexible credit underwriting criteria and favorable debt-to-income ratios.

Mortgage Products *(Cont.)*

Freddie MAC Community Gold

Down payment as low as $1,000 or 2% from borrower's personal cash.

No income limits for properties located in areas targeted for revitalization.

No maximum housing payment-to-income ratio. Total debt ratio up to 42%.

Pre/post purchase counseling required.

State Housing Finance Agency Programs

Loan amounts up to 97% of a home's value.

Minimum down payment of 3% must be borrower's own funds.

Flexible credit underwriting and favorable debt-to-income ratios.

Homeownership counseling required.

Mortgage Products *(Cont.)*

Federal Housing Administration and Veterans Administration

Maximum statutory mortgage limits.

Down payment may be 100% gift. O% down on VA program.

Owner occupied purchase transactions.

30 year mortgage terms.

Home Ownership Counseling Programs

Sovereign supports and works closely with community organizations to promote pre/post purchase counseling programs and financial education seminars that help low and moderate income people and areas.

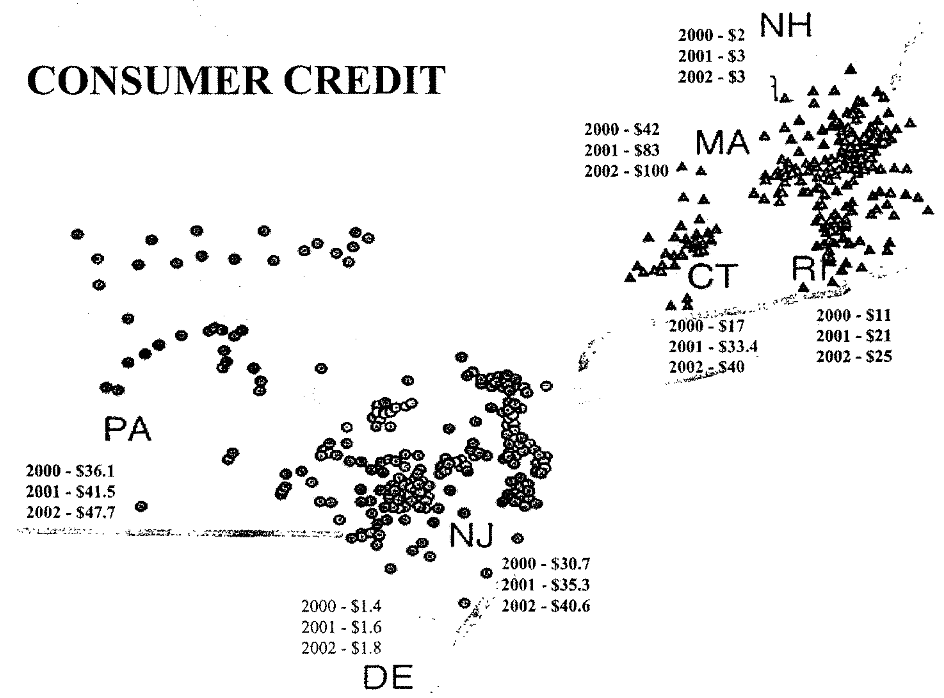
Consumer Credit

Sovereign commits to lend at least $205.6 million per year for 3 years for a total of $617 million in consumer loans to Mid Atlantic and New England residents in low- and moderate-income areas.

We will offer all of our existing consumer credit products to low- and moderate-income individuals and areas.

Our consumer credit products are designed to provide the maximum affordability to credit qualified applicants.

CONSUMER CREDIT



Revised 3/15/00

Consumer Credit

$ Million Per Year

STATE	COUNTIES	2000	2001	2002
Pennsylvania	27	36.1	41.5	47.7
New Jersey	21	30.7	35.3	40.6
Delaware	1	1.4	1.6	1.8
Connecticut	7	17	33.4	40
Massachusetts	14	42	83	100
Rhode Island	5	11	21	25
New Hampshire	2	2	3	3

TOTAL = 617.1 Million

Revised 3/15/00

Consumer Credit Products

Special Home Improvement Loan

The Special Home Improvement Loan is specially designed for low and moderate income individuals for the purpose of making alterations, repairs and/or improvements to their homes. Some features of this product are: (1) loan amounts of $500-$3,000 unsecured and $3,000-$35,000 secured; (2) no fees or costs of any kind; (3) loan terms up to 240 months.

Secured Visa

The Secured Visa is a line of credit from $500-$2,500 secured by a savings account equal to the line requested. This card is designed to help customers establish or re-establish credit and over time the customer may be eligible for a regular unsecured Sovereign Credit Card.

Small Business/Farm Lending

Sovereign will provide $519.7 million per year for 3 years for a total of $1.559 billion in loans to small businesses/small farms, including micro loans in Mid Atlantic and New England markets. (Small business loans are loans less than $1 million, as defined by CRA regulations.)

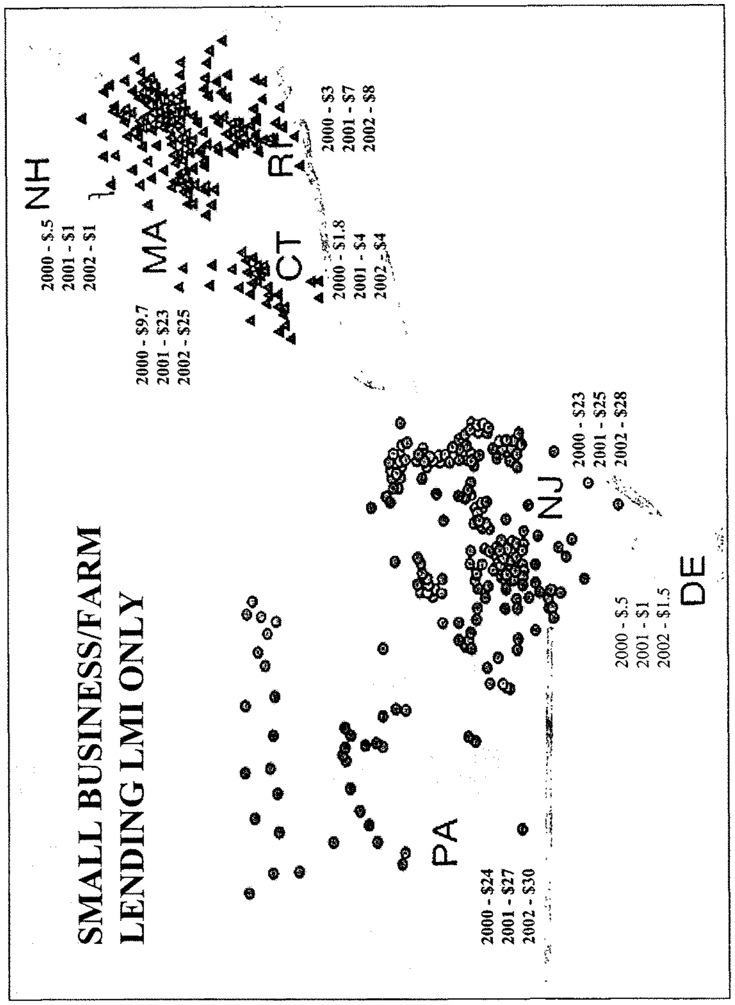
Sovereign has an independent business group with locally based relationship managers with local lending authority who provide excellent turnaround time and understand the challenges and opportunities facing small businesses. Sovereign employs a guaranteed second look program for all its small business applications.

Small Business/Farm Lending *(Cont.)*

Sovereign invests and provides educational resources to support micro-enterprise loan programs that provide start-up cash and mentoring for entrepreneurs who seek small loans. These programs are administered by local community-based organizations and private consultants who promote economic development in low- and moderate-income areas. Loans are made up to a maximum of $25,000 with every business submitting a business plan (with appropriate loan loss reserves, structure and collateral). Underwriting decisions are made by the non-profit organization and Sovereign.

Sovereign will also expand its Small Business Administration (SBA) unit. This unit will continue to have dedicated SBA lenders and underwriters, approving 7A, Fast Track and Low Doc loans to customers who request financing beyond conventional standards.

Government-subsidized and guaranty programs, and local lending pools will be utilized to access businesses that are traditionally underserved.


SMALL BUSINESS/FARM
LENDING LMI ONLY
NH
2000 - $.5
2001 - $1
2002 - $1
MA
2000 - $9.7
2001 - $23
2002 - $25
CT
2000 - $1.8
2001 - $4
2002 - $4
RI
2000 - $3
2001 - $7
2002 - $8
NJ
2000 - $23
2001 - $25
2002 - $28
DE
2000 - $.5
2001 - $1
2002 - $1.5
PA
2000 - $24
2001 - $27
2002 - $30

Small Business/Farm Lending LMI Only

$ Million Per Year

STATE	COUNTIES	2000	2001	2002
Pennsylvania	27	24	27	30
New Jersey	21	23	25	28
Delaware	1	.5	1	1.5
Connecticut	7	1.8	4	4
Massachusetts	14	9.7	23	25
Rhode Island	5	3	7	8
New Hampshire	2	.5	1	1

Revised 3/15/00

TOTAL = $248 Million

All Small Business/Farm Lending

$ Million Per Year

STATE	COUNTIES	2000	2001	2002
Pennsylvania	27	162	177	194
New Jersey	21	151	166	183
Delaware	1	2	3	3.6
Connecticut	7	11	25	26
Massachusetts	14	60	133	143
Rhode Island	5	18	41	44
New Hampshire	2	3.5	6	7

Revised 3/15/00

TOTAL = $1.559 Billion

Small Business/Farm Lending Products

Micro-lending

Sovereign provides loans and technical assistance to support community based micro-loan programs that provide financing and/or mentoring for entrepreneurs who need small loans to support their business. Loans normally range from $500 to $25,000. This program also prepares borrowers for more conventional loans as their businesses grow and prosper.

Small Business Lending Division

Sovereign's Small Business Lending Division enables owners of small businesses to request a loan, and get an answer within 48 hours of a completed application. The SBLD considers requests for loans ranging from $5,000 to $1,000,000 and guarantees conditional approval or denial on the loan within 48 hours. The division is staffed with experienced and dedicated loan officers who understand the challenges and opportunities facing small businesses. The Division puts special focus on women and minority owned businesses.

VISA Business Cards

The Sovereign VISA Business Credit Card is welcomed everywhere VISA is accepted. The card is a revolving, commercial credit card designed to help small businesses manage their business spending and cash flow more efficiently. This VISA Business Card allows customers to separate personal expenses from business related expenses.

Community Development

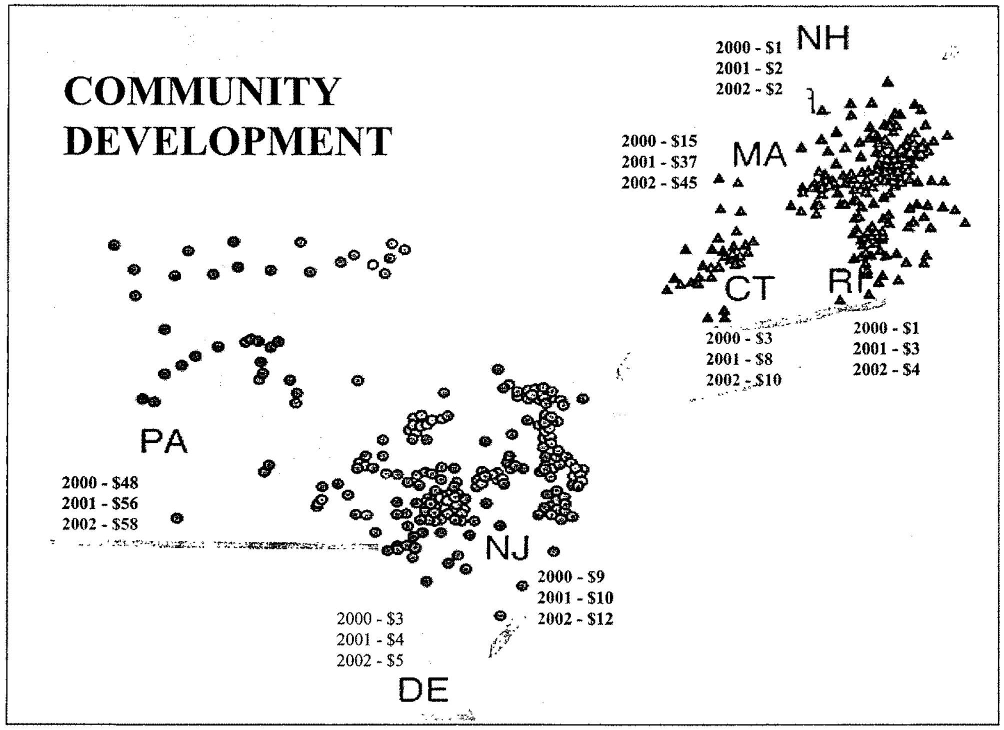
Sovereign will actively promote the Mid Atlantic and New England community development efforts with at least $112 million per year for 3 years for a total of $336 million in community development loans (as defined by CRA regulations).

Sovereign will support and promote community development through its community development lending unit and its business lending units. The unit consists of dedicated community development lenders who call on non-profit organizations and for profit business developers on economic development projects.

Community Development *(Cont.)*

Sovereign will continue its efforts of urban revitalization by providing credit facilities that will support the development of commercial real estate (community center improvements, neighborhood strip shopping centers, social service centers and small business incubators in urban areas).

Sovereign will also provide loans for construction, purchase and/or rehabilitation of multi-family affordable housing projects, residential properties and loans to non-profit organizations, not-for-profit developers and church-related groups for projects that benefit low- and moderate-income areas.


COMMUNITY
DEVELOPMENT
NH
2000 - $1
2001 - $2
2002 - $2
MA
2000 - $15
2001 - $37
2002 - $45
CT
2000 - $3
2001 - $8
2002 - $10
RI
2000 - $1
2001 - $3
2002 - $4
PA
2000 - $48
2001 - $56
2002 - $58
NJ
2000 - $9
2001 - $10
2002 - $12
DE
2000 - $3
2001 - $4
2002 - $5

COMMUNITY DEVELOPMENT

$ Million Per Year

STATE	COUNTIES	2000	2001	2002
Pennsylvania	27	48	56	58
New Jersey	21	9	10	12
Delaware	1	3	4	5
Connecticut	7	3	8	10
Massachusetts	14	15	37	45
Rhode Island	5	1	3	4
New Hampshire	2	1	2	2

Revised 3/15/00

TOTAL = $336 Million

Community Development

Community Development Unit

The unit focuses on affordable housing - providing acquisition, predevelopment, construction, rehabilitation, and permanent financing of multi-family and single-family projects. The unit assists non-profit developers with lines of credit at interest rates discounted below prime plus payment terms with interest only payments up to 18 months disbursements are made monthly and total principal repayment is required at the completion of each project. Loan fees are minimal, and lines of credit may be secured with real estate or other assets of the non-profit organization.

The Unit also originates and negotiates equity investments in low income housing tax credits that benefit low and moderate income people and areas.

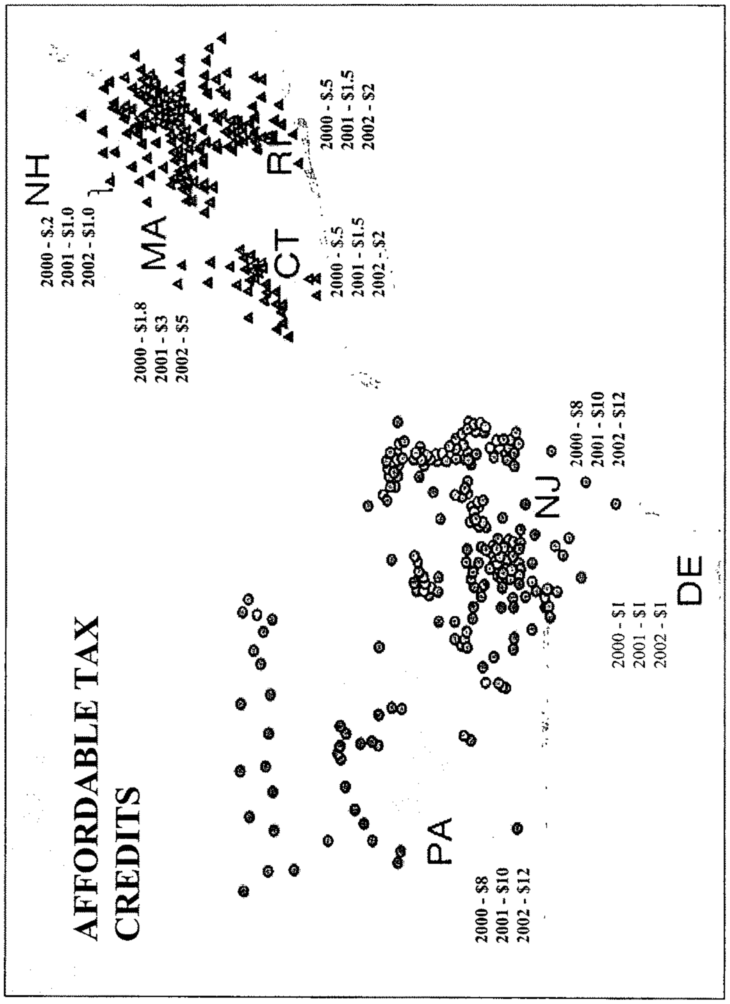
Affordable Tax Credits

Sovereign will provide at least $82.8 million in Low-Income Housing Tax Credits for equity, construction, bridge and conduit debt over a 3-year period in the Mid Atlantic and New England banking markets.

Sovereign is an active Investor in the purchase of Low-Income Housing Tax Credits and in facilitating these types of housing developments.

Sovereign's community development unit provides the customer construction and permanent financing with fixed interest rates. Our program provides flexibility and innovativeness for the borrower's equity management interest.

Sovereign will seek to form partnerships with non-profit organizations and governmental agencies to facilitate completion of a project. When possible, we will provide a letter of credit for bond issues and apply for grants to make community developments projects work.



Revised 3/15/00

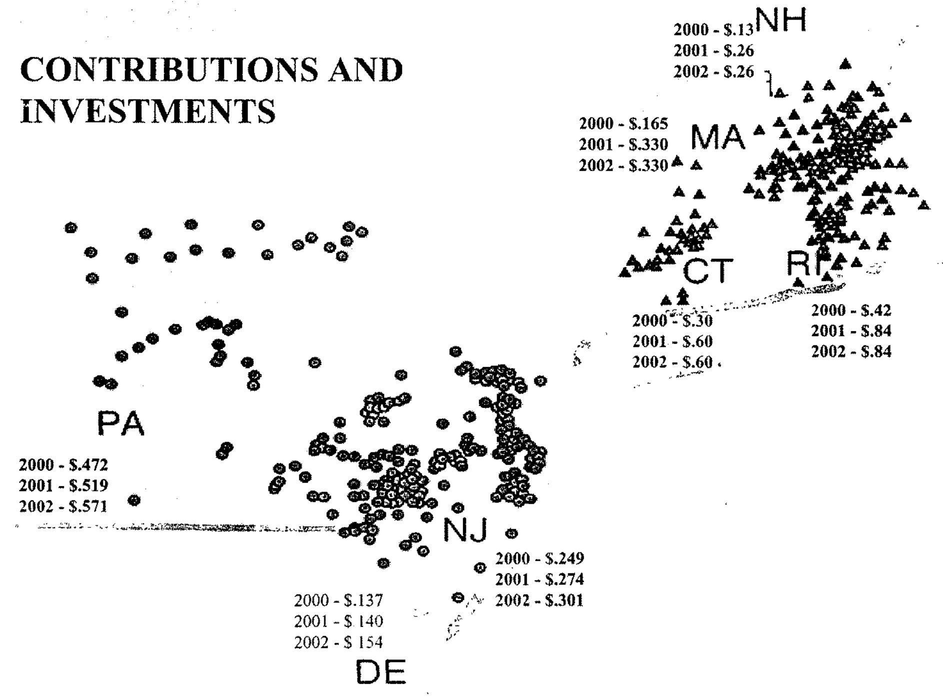
Contributions And Investments

Sovereign will strategically contribute and/or invest $1.356 million per year for 3 years for a total of $4.067 million (in CRA qualified contributions in its Mid Atlantic and New England markets).

CRA qualified contributions and investments are loans, investments, donations or volunteer activities for the primary purpose of affordable housing, community services, economic development and neighborhood revitalization. The beneficiaries of CRA qualified contributions and investments are low- to moderate-income individuals, low- to moderate-income communities and small business/small farms.

These investments will include, but will not be limited to, investments in minority banks, community-based credit unions and Community Development Financial Institutions, grants or contributions to non-profit organizations, purchasing economic development tax credits, and Federal Home Loan Bank affordable housing program loans and grants.

CONTRIBUTIONS AND INVESTMENTS



CONTRIBUTIONS AND INVESTMENTS

$ Million Per Year

STATE	COUNTIES	2000	2001	2002
Pennsylvania	27	.472	.519	.571
New Jersey	21	.249	.274	.301
Delaware	1	.137	.140	.154
Connecticut	7	.30	.60	.60
Massachusetts	14	.165	.330	.330
Rhode Island	5	.42	.84	.84
New Hampshire	2	.13	.26	.26

Revised 3/15/00

TOTAL = 4.067 Million

Volunteer/Service Activities

Sovereign is committed and dedicated to serving the needs of the communities where our employees and customers live and work. Our mission is to build mutually beneficial relationships with our customers that make a positive, long term difference in our communities.

KidsBank.com

KidsBank.com is the Bank's public service Internet site providing educational information on banking for young people on the World Wide Web. The site teaches fundamentals of banking in a cartoon interactive format.

Educational Support

Sovereign actively supports preschool, elementary and secondary education with contributions, including a matching gifts program that matches employee contributions up to $500 per year.

CRA Advisory Boards

Sovereign will also create Advisory Committees in Connecticut, Rhode Island and Massachusetts. The committees will be comprised of community leaders and non profit organizations which will allow the Bank to communicate on a regular basis with those who know local needs in a specific market area. The goal of the advisory committees is to support affirmative-lending options to all citizens in a community. The advisory committees monitor lending practices, CRA products and philanthropies; provides advice on how to best meet local credit needs; educates the community on Bank efforts in fair lending; identifies low/mod income housing and commercial funding opportunities available to the Bank.

Sovereign will provide an annual report to the community and our advisory boards on the progress of our community development lending and activities.

Summary

Over the next three years, Sovereign Bank will make a $3.7 billion investment in mortgages, consumer loans, small business/farm loans, community development loans, investments/contributions, and employee volunteer/service activities to low- to moderate-income individuals and communities in our Mid Atlantic and New England markets.

The major components of our Community Reinvestment Plan are:

•Affordable Mortgages - at least $367 million per year for 3 years for a total of $1.1 billion.

•Consumer Credit - at least $205.7 million per year for 3 years for a total of $617 million.

Summary *(Cont.)*

- Small Business/Farm Lending - $519.7 million per year for 3 years for a total of $1.559 billion.

- Community Development Lending - at least $112 million per year for 3 years for a total of $336 million.

- Low Income Housing/Historical Tax Credits - at least $27.6 million per year for 3 years for a total of $82.8 million.

- CRA contributions/Investments - $1.356 million per year for 3 years for a total of $4.067 million. (CRA qualified contributions/investments)

- Service Commitments - KidsBank.com and employee volunteer services.

[redacted]

SOVEREIGN BANK
COMMUNITY REINVESTMENT PLAN
LMI SUMMARY

	Mid Atlantic			New England		
	2000	2001	2002	2000	2001	2002
Mortgages	$257	$269	$279	$45	$100	$150
Consumer	68.2	78.4	90.1	71	140	168
Small Business/Farm Lending	47.5	53	59.5	15	35	38
Community Development	60	70	75	20	50	61
Affordable Tax Credits	17	21	25	3	7	10
Contributions and Investments	.858	.933	1.1	.250	.500	.500
TOTALS	$450.558	$492.333	$529.7	$154.25	$332.5	$427.5

Revised 3/15/00

SOVEREIGN BANK
COMMUNITY REINVESTMENT PLAN
LMI AND SMALL BUSINESS SUMMARY

	Mid Atlantic			New England		
	2000	2001	2002	2000	2001	2002
Mortgages	$257	$269	$279	$45	$100	$150
Consumer	68.2	78.4	90.1	71	140	168
Small Business/Farm Lending	315	346	380.6	92.5	205	220
Community Development	60	70	75	20	50	61
Affordable Tax Credits	17	21	25	3	7	10
Contributions and Investments	.858	.933	1.1	.250	.500	.500
TOTALS	$718.058	$785.333	$850.8	$231.75	$502.5	$609.5

Revised 3/15/00

Sovereign Bank
Community Reinvestment Plan
Performance Summary
2000 - 2001 - 2002

	Three Year Plan Goals	Activity	% of Goal
Mortgages	$ 1,061	$ 1,399	132
Consumer	614	1,206	196
Small Business	1,553	2,316	149
Community Development	327	460	141
Affordable Tax Credits	81	72	89
Totals	**$ 3,636**	**$ 5,453**	**150**

$ in millions

Sovereign Bank
Community Reinvestment Plan
Performance Summary
2000 - 2001 - 2002

Mid-Atlantic

	Three Year Plan Goals	Activity				
		2000	2001	2002	Totals	% of Goal
Mortgages	748	246.2	324	373	943.2	126
Consumer	232	80	301.6	141	522.6	225
Small Business	1,033	413.7	404	484	1,301.7	126
Community Development	193	48	116.2	72.7	236.9	122
Affordable Tax Credits	60	12.9	4.8	30	47.7	80
Totals	**2,266**	**800.8**	**1,150.6**	**1,100.7**	**3,052.1**	**135**

$ in millions

Sovereign Bank
Community Reinvestment Plan
2000 - 2001 - 2002

New England

	Three Year Plan Goals	Activity				
		2000	2001	2002	Totals	% of Goal
Mortgages	295.0	56.8	155.4	225	437.2	148
Consumer	380.4	57	279.5	346	682.5	179
Small Business	517.5	91	503.9	414	1,008.9	195
Community Development	131	13.7	83.7	123.8	221.2	169
Affordable Tax Credits	20	3.3	7.7	12.6	23.6	115
Totals	**1,344**	**221.8**	**1,030.2**	**1,121.4**	**2,373.4**	**177**

$ in millions

Sovereign Bank
Community Reinvestment Plan
2000 - 2001- 2002

Pennsylvania

	Three Year Plan Goals	Activity				
		2000	2001	2002	Totals	% of Goal
Mortgages	448	160.2	205.4	241	606.6	135
Consumer	125.3	26	132.2	61	219.2	175
Small Business	533	223.3	208	280	711.3	133
Community Development	162	33.7	50.2	65.6	149.5	92
Affordable Tax Credits	30	8.1	3.4	18.7	30.1	101
Totals	**1,298.3**	**451.3**	**599.2**	**666.3**	**1,716.8**	**132**

$ in millions

Sovereign Bank
Community Reinvestment Plan
2000 - 2001 - 2002

New Hampshire

	Three Year Plan Goals	Activity				
		2000	2001	2002	Totals	% of Goal
Mortgages	14	1.5	4.4	8	13.9	99
Consumer	8	1	7.6	10	18.6	232
Small Business	16.5	3.1	23.2	25	51.3	311
Community Development	5	-	-	-	-	-
Affordable Tax Credits	2.2	-	-	1.8	1.8	82
Totals	**45.7**	**5.6**	**35.2**	**44.8**	**85.6**	**187**

$ in millions

Sovereign Bank
Community Reinvestment Plan
2000 - 2001 - 2002

Rhode Island

	Three Year Plan Goals	Activity				
		2000	2001	2002	Totals	% of Goal
Mortgages	36	11.1	27.6	31	69.7	194
Consumer	57	6.3	32.4	29	67.7	119
Small Business	103	21.6	90.1	49	160.7	156
Community Development	8	1.5	9.6	31.2	42.3	529
Affordable Tax Credits	4	-	0.5	0.5	1	0.25
Totals	**208.0**	**40.5**	**160.2**	**140.7**	**341.4**	**164**

$ in millions

Sovereign Bank
Community Reinvestment Plan
2000 - 2001 - 2002

Connecticut

	Three Year Plan Goals	**Activity**				
		2000	2001	2002	Totals	% of Goal
Mortgages	83	27.2	44.4	41	112.6	136
Consumer	90.4	18	98.9	138	254.9	282
Small Business	62	15.2	46.6	53	114.8	185
Community Development	21	3.9	28.8	0.1	32.8	156
Affordable Tax Credits	4	-	-	2.4	2.4	60
Totals	**260.4**	**64.3**	**218.7**	**234.5**	**571.5**	**199**

$ in millions

Sovereign Bank
Community Reinvestment Plan
2000 - 2001 - 2002

Massachusetts

	Three Year Plan Goals	Activity				
		2000	2001	2002	Totals	% of Goal
Mortgages	162	17.1	79	145	241.1	149
Consumer	225	31.4	140.6	169	341	152
Small Business	336	51.1	344	287	682.1	203
Community Development	97	8.3	45.3	92.5	146.1	151
Affordable Tax Credits	9.8	3.3	7.3	7.9	18.5	189
Totals	**829.8**	**111.2**	**616.2**	**701.4**	**1,428.8**	**172**

$ in millions

Sovereign Bank
Community Reinvestment Plan
2000 - 2001 - 2002

New Jersey

	Three Year Plan Goals	Activity				
		2000	2001	2002	Totals	% of Goal
Mortgages	300	86.0	118.6	132	336.6	112
Consumer	106.6	52	169.4	80	301.4	284
Small Business	500	190.4	196	204	590.4	118
Community Development	31	14.3	65.5	7.1	86.9	280
Affordable Tax Credits	30	4.8	1.4	11.3	17.5	58
Totals	**967.6**	**347.5**	**550.9**	**434.4**	**1,332.8**	**138**

$ in millions

COMMUNITY INVESTMENT AGREEMENT
March 7, 2000

Sovereign Bank New England
And
Community Advisory Committee

Proposed Agreement, Timeframe, and Monitoring

Consistent with our Community Reinvestment Plan to provide the necessary financial products and services to low and moderate income communities and individuals Sovereign Bank New England (SBNE or the Bank) will make a commitment for the years 2000, 2001, and 2002 with the Community Advisory Committee (CAC) which will contain specific goals for loans, investments, and services. SBNE agrees that during 2002 the Bank will negotiate with the CAC specific goals for 2003 and 2004, consistent with the philosophy and intent of this agreement.

SBNE will create a Commonwealth Advisory Committee ("The Committee") for Massachusetts. This Committee will have the responsibility of monitoring and advising SBNE on the execution of the bank CRA plan as well any specific agreements, including but not limited to the CAC agreement. The Committee will be comprised of approximately twelve members including bank decision-makers, with at least four community members nominated by the CAC, and community members at large. The Committee will meet quarterly and review each of the programs of the agreement, program goals and program results year to date through the full term of the agreement. The formal structure and reporting mechanisms will be determined jointly with the bank and Committee members.

SBNE and the CAC in partnership have developed this Agreement and the following community investment programs that will provide financing for affordable housing and economic development projects for low and moderate income residents and areas in Massachusetts.

Small Business Lending

Sovereign commits to originate a minimum of $336 Million in small business loans in Massachusetts during the term of this agreement. SBNE's loan parameters run from a minimum of $2,500 to a maximum of $2 Million. The Bank will work with community development corporations and the minority business community to finance economic development initiatives, small business start-ups and expansion, job linkage and work force development projects that create jobs for low and moderate income residents and communities. The Bank will support organizations which provide financial and technical assistance to small, minority and women-owned businesses. Specifically, the Bank will target 25% of its small business loans to borrowers in LMI areas, 60% to businesses earning less than $1 Million in revenue, and 65% to businesses needing loan amounts of less than $100,000.

SBNE's small business delivery strategy will include locally based relationship managers across New England for whom community involvement will be a job requirement. All employees will receive fair lending training and front line sales staff and others will participate in assistance outreach through seminars and other education venues. In addition, we will provide a specific focus on minority and women-owned businesses.

Sovereign will offer a guaranteed second look program to applicants not meeting underwriting criteria and ascertain whether mitigating circumstances and/or credit enhancement would allow granting of credit. The Bank will also provide SBA and other loan guarantee and credit enhancement programs. In addition, the Bank will provide fast credit turnaround time (credit decision in three business days, closing in ten business days). The Bank will offer a discounted (50 basis points below prime) rate to applicants that receive technical assistance of up to $1 Million in credit granted annually.

Affordable Mortgages

Sovereign commits to lend a minimum of $162 million in low and moderate-income mortgages in Massachusetts through the year 2002. The Bank will utilize the ACORN and Soft Second mortgage programs that offer low cost and flexible credit underwriting criteria in addition to other affordable mortgage products. The Bank will commit to lend $75 Million of the $162 Million to the ACORN and Soft Second mortgage programs.

The Committee will assist Sovereign in developing other programs that help to achieve common goals in increasing community access to affordable mortgages to low and moderate and minority borrowers. The Bank will work to reduce loan defaults and foreclosures by contracting with counseling agencies on a fee for service basis which employs comprehensive pre and/or post purchase counseling programs.

Equity Investments

Sovereign will invest $2.0 million in equity positions through the year 2002 in community based equity and loan providers such as CDFIs, CDCs, loan pools, and various collaboratives that serve, at least 75% minority and women-owned businesses, and/or LMI owned businesses or businesses that serve LMI areas.

Sovereign will consider direct investment participation as part of its equity investment pool. Any direct investment will not count toward the $2.0 million.

Loans and Investments in the Boston Empowerment Zone

As part of Sovereign's commitment to New England, Sovereign will make available $5 million annually in loans and investments in the Boston Empowerment Zone.

Retention and Creation of Branches in LMI and Minority Areas

Sovereign will commit to keep open all branches purchased in LMI and minority areas for one year after the final divestiture closing date. Beyond that year, the Bank will seek input from the Committee upon consideration and before filing for any branch closings in LMI and minority areas.

Human Resources Diversity Commitment

SBNE is committed to achieving diversity within all levels of its workforce and its Board that is reflective of the communities it serves. As a reflection of this commitment, Sovereign agrees that, with the active participation of CAC, it will:

> Determine specific diversity goals within 30 days of the signing of this agreement;
>
> Determine a detailed plan to implement the goals within 60 days of the final divestiture closing date.

For those hires that Sovereign will make that are not covered under agreement with Fleet, Sovereign shall immediately implement hiring practices that reflect diversity at all staff levels.

Sovereign will appoint a Manager of Diversity for New England who will assume responsibility for program advocacy, monitoring, coordination and oversight in the areas of human resource diversity.

Sovereign will offer bilingual services consistent with the needs of the various communities it serves.

The CEO and COO of the Bank will personally espouse a commitment to these goals. They will hire and support senior staff who will be responsible for designing and implementing these policies, as well as to work with the Committee to perform an analysis of any impediments that might exist to meeting these goals.

Procurement

Sovereign will design and implement a program with a goal of utilizing minority and women vendors that is reflective of the communities it serves. As a reflection of this commitment, Sovereign, with the active participation of CAC, will:

> Determine specific goals within 30 days of the signing of this agreement;
>
> Determine a detailed plan to implement the goals within 60 days of the signing of this agreement.

The CEO and COO of the Bank will personally espouse a commitment to these goals. They will hire and support senior staff who will be responsible for designing and implementing these policies as well as to work with the Committee to perform an analysis of any impediments that might exist to meeting these goals.

Free or Low Cost Saving and Checking Accounts

We commit to establish a goal of opening 10,000 basic banking accounts and free checking accounts by 2002 and thereafter annually in Massachusetts.

Community Development Financing

Sovereign commits to lend a minimum of $97 million in community development financing in Massachusetts during the term of this Agreement for affordable housing projects and commercial real estate sponsored by for profit and non-profit organizations. Financing will include acquisition, construction and permanent loans. The Bank will target 60% of its commitment to housing projects and 40% to commercial real estate that will benefit the LMI communities.

The Bank has agreed to take the unfunded Fleet loan obligations to Massachusetts Housing Partnership Fund in an amount of approximately $60 million. Within this amount, the bank agrees to a free one year rate lock on loans totaling $20 million. Of this $20 million, $10 million will be set aside at the lower of either the Federal Home Loan Bank CIP rate plus 25 basis points, or the 20 year treasury rate plus 25 basis points, which ever is lower at the time the rate is locked.

This $10 million set aside is in addition to lower rate interest set-asides still outstanding, specifically $3.7 million in the case of the Fleet/Shawmut commitment and $4.7 million in the case of Fleet/BNE commitment.

In addition, Sovereign will also participate in investment programs to develop low income housing through federal and Massachusetts's low income housing tax credit (LIHTC) programs and historic tax credits. The goal for investments in the federal LIHTC program will be $10 million by 2002.

Annual Grants to Support Community Development and Civil Rights Advocacy

Sovereign will contribute to community development activities amounting to at least $250,000 in 2000 and at least $500,000 annually in 2001 and 2002 in Massachusetts.

This grant support will be targeted to:

- Affordable housing including home buyer and homeowner counseling, the development of affordable rental and special needs housing, and related programs for LMI people;
- Community and economic development including small business technical assistance, micro and peer lending programs, entrepreneur training, job training and workforce development programs, and the development of commercial or industrial real estate;
- Economic education including credit counseling and programs expanding access to credit and banking services for LMI and minority communities; and,
- Civil Rights related advocacy such as community organizing, diversity education, expanding awareness and understanding of racial and gender economic disparities, research and litigation to enforce civil rights laws, and other such efforts which can affect public policy and business practices.

SIGNED: 3/20/2000

Dianne Wilkerson
Senator Dianne Wilkerson
Convenor
Community Advisory Committee

John P. Hamill
Chairman & CEO
Sovereign Bank New England

We, the following community based organizations have agreed to work with Sovereign Bank New England toward the effective implementation of this agreement.

Community Advisory Committee

Negotiating Team Members

NAME	ORGANIZATION	SIGNATURE
Juan M. Cofield	NAACP-Boston Branch	[illegible]
Marc Draisen	Massachusetts Association of CDCs	Marc Draisen
David J. Harris	Fair Housing Center of Greater Boston	David J. Harris
Kenneth S. Guscott	Minority Developers Association	Kenneth Guscott
Clayton Turnbull	The Waldwin Group	Clayton Turnbull
Steve Wright	Massachusetts Black Lawyers Association	Steven H. Wright

Committee Members

NAME	ORGANIZATION	SIGNATURE
Andrea Luquetta	MACDC	Andrea Luquetta
Ralph Cooper	Veterans Benefits Clearinghouse	Ralph Cooper
Gloria L. Fox	State Representative	Gloria L. Fox
Minosca Alcantara	Pena-Alcantara Consultants	Minosca Alcantara
Bruce Young Candelaria	Hispanic American Chamber of Commerce	Bruce Young
Beverly Wing	Chinatown Coalition	Beverly Wing
[illegible]	ORG. FOR A NEW EQUALITY	KEVIN PACKARD.
Bruce C. Bolling	Mass Alliance for Small Contractors	Bruce Bolling
PAT CUSICK	SNAP	[illegible]

Special Thanks to the offices of Senator John Kerry and Congressman Michael Capuano. Especially their **Committee Observers**:

NAME	ORGANIZATION	SIGNATURE
Roy Martin	Office of Senator John Kerry	[illegible]
Egobudike Ezedi, Jr.	Office of Congressman Michael Capuano	[illegible]

SOVEREIGN BANK
COMMUNITY ADVISORY COMMITTEE AGREEMENT
MASSACHUSETTS

Section	Agreement (3/00 - 12/02) (000)	2000 (000)	2001 (000)	2002 (000)	Total (000)	% of Goal
Small Business	336,000	53,000	332,000	287,000	672,000	200%
Affordable Mortgages (ACORN/Soft Second Mortgages 1.)	162,000 (75,000)	13,000 0	79,000 3,086	145,000 8,700	237,000 11,800	146% 16%
Commercial Community Development (acquisition, construction, permanent)	97,000	3,800	66,300	93,000	163,500	169%
Low Income Housing Tax Credits	10,000	1,100	8,432	8,000	11,532	175%
Loans and Investment in Boston Empowerment Zone	15,000	0	9,300	14,404	23,404	156%
Equity Investments	2,000	0	16,000	2,300	18,303	915%
Grants	1,250	262K	509K	519K	1290K	103%
Totals	**613.25**	**71.2**	**512.000**	**550,223**	**1133**	**185%**

1. Included in $162 million.
ACORN $6,013,000
Soft Seconds $5,721,825

Memorandum of Understanding
between
Sovereign Bank New England
and the
Massachusetts Affordable Housing Alliance

Sovereign Bank New England has agreed to provide home purchase mortgages to a total of 325 first time home buyers (50 in 2001, 75 in 2002, and 100 in both 2003 and 2004) through the Soft Second First Time Home Buyers Program in the city of Boston.

In addition, Sovereign Bank New England has agreed to provide home purchase mortgages to a total of 325 first time home buyers (50 in 2001, 75 in 2002, and 100 in both 2003 and 2004) through the Soft Second First Time Home Buyers Program in the balance of the state. This program was developed by the Massachusetts Affordable Housing Alliance (MAHA), banks, and state and city officials.

Sovereign Bank New England and MAHA agree to the following terms and conditions:

Commitment: Sovereign Bank New England commits to provide first and second mortgages to a total of 325 qualified first time home buyers (50 in 2001, 75 in 2002, and 100 in both 2003 and 2004) for the purchase of one, two, and three family properties in the city of Boston. In addition, Sovereign Bank New England has agreed to provide home purchase mortgages to a total of 325 first time home buyers (50 in 2001, 75 in 2002, and 100 in both 2003 and 2004) through the Soft Second First Time Home Buyers Program in the balance of the state.

MAHA agrees to continue to provide all of the services to first time home buyers and new homeowners outlined in our memorandum of understanding with the bank, provided that adequate funding continues to be available to MAHA to do so.

MAHA reserves the right to re-open discussion of this agreement if, during the period covered by the agreement, the bank substantially increases its presence in the city of Boston through expansion, acquisitions, or mergers.

Program: To provide first and "soft second" loans to low and moderate income first time home buyers. The maximum first mortgage amount will represent 75% loan to value and the second mortgage will represent the greater of $20,000 or 20% loan to value.

Soft Second: $20,000 or 20% loan to value, whichever is greater. Principal is deferred for 10 years and Massachusetts Housing Partnership (MHP) funds may be used to supplement interest only payments for the first nine years. MHP provides a loan loss reserve of 10% of all soft second loans which eliminates the need for Private Mortgage Insurance.

Interest Rate: Interest rate on the first and second mortgages will be 50 basis points below the bank's 30 year fixed 2 point rate. No points will be charged to the borrower.

The following alternative pricing structure may also be used:
The interest rate on the first will be the same as the bank's 30 year fixed 2 point rate. The interest rate on the second will be 237 basis points below the bank's 30 year fixed 2 point rate. The discount on the second mortgage will be sufficient to keep the borrowers' payments to very close to what they would have paid under the program structure described above. No points will be charged to the borrower.

Loan Terms: First Mortgage - 30 year Fixed Rate Mortgage
Second Mortgage - Interest only for the first 10 years
30 year maturity
Amortized over 20 years after first 10 years

Subsidy: MHP funds the lender the net present value subsidy amount and places 10% of the Second Mortgage amount into the separate Loan Loss Reserve Account held at MHP.

Borrowers are provided subsidy when income is not high enough to fully cover monthly housing costs. A subsidy "phase out" gradually increases the borrower's share of the second mortgage payments. MHP will not subsidize borrowers' interest payments below the point where the borrower is paying 28% of his/her income for housing debt. The maximum public subsidy will be determined by MHP program guidelines:

Eligible Properties: Property must be located within a participating community in the Commonwealth of Massachusetts. One, Two, and Three Family owner occupied primary residences only.

Income Limits: Income limits are determined by MHP.

Loan-To-Value: Maximum loan to value of 95% (excluding MHP subsidy provided as a deferred payment loan).

Maximum Purchase Price: As set by the Massachusetts Housing Partnership.

Currently:
Condominium $150,000
Single Family $165,000
Two Family $180,000 (due to be increased by MHP in April)
Three Family $200,000 (due to be increased by MHP in April)

Income: Ability to repay will be determined by taking into account all elibible income from wages, pensions, interest, dividends, and government sources. Non-taxed income such as Social Security shall be considered at 125% of the actual amount.

Child Support & Alimony: Child support and alimony will be accepted as income provided that proof of receipt is available and the payment can be expected to continue for at least three years. Borrower must provide verification of receipt of payment for the last 12 months (i.e. copies of canceled checks, bank statements with regular deposits, verifications from court). A full divorce decree or separation agreement is required.

Borrowers responsible for child support and/or alimony payments must provide a copy of the full divorce decree or another document evidencing the monthly liability.

Qualifying Ratios: Maximum ratio of 33%/38%. Only borrower's share of the second mortgage payments used to calculate debt-to-income ratio in the initial years.

Rental Income: 75% of gross rent deducted directly from PITI. PITI may not exceed 50% of borrower's gross monthly income (excluding rental income). For three family homes, underwriting for rental income will be as follows: 75% of gross rent deducted directly from PITI. PITI may not exceed 50% of the sum of borrower's gross monthly income plus rent from one of the rental units.

Loan Terms: First Mortgage - 30 year Fixed Rate Mortgage
Second Mortgage - Interest only for the first 10 years
30 year maturity
Amortized over 20 years after first 10 years

Subsidy: MHP funds the lender the net present value subsidy amount and places 10% of the Second Mortgage amount into the separate Loan Loss Reserve Account held at MHP.

Borrowers are provided subsidy when income is not high enough to fully cover monthly housing costs. A subsidy "phase out" gradually increases the borrower's share of the second mortgage payments. MHP will not subsidize borrowers' interest payments below the point where the borrower is paying 28% of his/her income for housing debt. The maximum public subsidy will be determined by MHP program guidelines:

Eligible Properties: Property must be located within the City of Boston. One, Two, and Three Family owner occupied primary residences only.

Income Limits: Income limits are determined by MHP.

Loan-To-Value: Maximum loan to value of 95% (excluding MHP subsidy provided as a deferred payment loan).

Maximum Purchase Price: As set by the Massachusetts Housing Partnership.

Currently:
Condominium $150,000
Single Family $165,000
Two Family $180,000 (due to be increased by MHP in April)
Three Family $200,000 (due to be increased by MHP in April)

Income: Ability to repay will be determined by taking into account all elibible income from wages, pensions, interest, dividends, and government sources. Non-taxed income such as Social Security shall be considered at 125% of the actual amount.

Child Support & Alimony: Child support and alimony will be accepted as income provided that proof of receipt is available and the payment can be expected to continue for at least three years. Borrower must provide verification of receipt of payment for the last 12 months (i.e. copies of canceled checks, bank statements with regular deposits, verifications from court). A full divorce decree or separation agreement is required.

Borrowers responsible for child support and/or alimony payments must provide a copy of the full divorce decree or another document evidencing the monthly liability.

Qualifying Ratios: Maximum ratio of 33%/38%. Only borrower's share of the second mortgage payments used to calculate debt-to-income ratio in the initial years.

Rental Income: 75% of gross rent deducted directly from PITI. PITI may not exceed 50% of borrower's gross monthly income (excluding rental income). For three family homes, underwriting for rental income will be as follows: 75% of gross rent deducted directly from PITI. PITI may not exceed 50% of the sum of borrower's gross monthly income plus rent from one of the rental units.

Purchase & Rehab: Sovereign Bank New England agrees to offer buyers the option of a purchase and rehabilitation loan through the Soft Second program. Maximum loan to value will be 95% of the property's "as completed" value or purchase price plus cost to rehab, whichever is less. The cost of the improvements may not exceed $50,000. The purchase and rehab loan may include fees due to the rehab agent as well as carrying costs for the property during the rehab period.

A cost estimate of work, and specifications for the work from a licensed contractor and from a qualified Rehabilitation Specialist should accompany the application. An appraisal will be ordered by the bank when the application is received; that appraisal will determine the "as completed value".

If the property contains lead paint and additional funds for de-leading are obtained through public sources willing to be in fourth position, cumulative loan to value may exceed 95%. In no case shall the bank's liability exceed 95% loan to value.

All rehabilitation work must be carried out by licensed contractors. No "sweat equity" is permitted. Rehab Agent must oversee work and sign off on disbursement of funds to contractors.

Gifts: Of the 5% minimum downpayment on single family homes and condominiums, 3% must come from the borrower's own funds; the remaining 2% may come from (1) a gift from a family member or an unrestricted grant without terms for recapture or repayment from a non-profit organization, (2) a gift or unrestricted grant without terms for recapture or repayment from the FDIC or (3) a secured grant from a non-profit organization or government agency that is not due and payable until the sale or refinance of the property. The remainder can not come from the seller.

Of the 5% minimum downpayment on two and three family homes, 3% must come from the borrower's own funds. The remaining 2% may come from sources (1) through (3), as outlined above. The remainder can not come from the seller. Closing costs and prepaid items may be paid from gifts. Gifts are allowed from a family member or a grant or an unsecured loan from a non-profit organization or public entity, so long as the borrower has met the minimum downpayment requirements. The seller of the property may also pay the closing costs. However, contributions by the seller are subject to the following limitations:

- In the case of loan-to-value of less than or equal to 90%, contributions are allowed up to 6% of the appraised value or sales price, whichever is less.

- In the case of loan-to-value of greater than 90%, contributions are allowed up to 3% of the appraised value or sales price, whichever is less.

The seller may not pay prepaid items.

Closing Costs: As negotiated.

Employment: All borrowers should have two full years of employment activity history for income utilization. There is an emphasis on income stability rather than job stability. It is acceptable as long as a two year history of stable income exists, employment gaps are explained, and the borrower(s) works in a field in which other employment opportunities with similar incomes are readily available.

Self employed - Self employed borrowers must have a two year history in same profession. Income must be verified with two years of personal and/or corporate income tax returns, along with all supporting schedules and Year To Date Profit and Loss Statement and Balance Sheet.

Credit: The most recent 12 months of a borrower's credit history will be reviewed for minor instances of derogatory credit to ascertain that the borrower has a sufficient number of accounts without adverse ratings to support a determination that the overall credit history is an acceptable one. The borrower's credit history must demonstrate a willingness to repay debt. Each evaluation of credit will be reviewed on a case by case basis. A decision will be made at the lender's discretion.

All late payments within the past two years are to be explained. Any excessive or recurring lates beyond two years may also require explanations.

Credit inquiries that are less than 90 days old and do not appear as open credit on the credit report wil require a written explanation from the borrower or creditor.

Outstanding collection accounts must be brought current. Limited or no credit history can be supported by evidence of rent and/or utility payments.

At least two years must have elapsed since any bankruptcy was discharged. Borrowers must have re-established credit. A satisfactory letter of explanation and a letter of discharge and Schedule of Credits listing all debts is required.

Private Mortgage Insurance: None required.

Pre-Qualification: The bank pre-qualifies applicants and calls MHP, then mails in Registration upon collection of a $25 fee payable to MHP.

Home Buyer Education: The buyer must present evidence that he/she has enrolled in an MHFA certified home buyer education program. The program must include information about homeowner/landlord responsibilities such as home maintenance, budgeting, tenant selection, and tenant-landlord law. The borrower must receive a graduation certificate before the loan is closed.

Reserves: 2 months PITI (principle, interest, taxes, insurance) is waived.

Escrows: Real estate taxes, hazard insurance and flood insurance (if applicable) required.

Marketing: The bank agrees to market the Soft Second Program through all of its Boston mortgage marketing efforts, including, but not limited to, contact and communication with local realtors and information posted and/or distributed at home buyers seminars, neighborhood branches and local housing fairs. The bank will work with MAHA to develop a coordinated marketing campaign designed to maximize participation of minority households and households with annual incomes below $25,000.

The bank agrees to review its marketing efforts and loan closings in the Soft Second Program annually with MAHA members and/or staff. If the number of loans closed during any year covered under this agreement is less than the number committed, the bank agrees to carry over the unused allocation and expand its neighborhood based advertising and marketing of the Soft Second Program during the following year.

Privacy Waiver: Loan applicants will sign and submit to MAHA a privacy waiver. This privacy waiver will give permission to the bank to discuss the customer's credit situation with designated representatives of MAHA. The waiver will also enable the bank to refer borrowers who are unable to make payments due to circumstances beyond their control to MAHA's post-purchase counselor. Upon determination of the nature and extent of the borrower's hardship and analysis of the

borrower's financial condition, the bank will work with the borrower and MAHA to attempt to develop a mutually acceptable payment schedule that would provide repayment within the borrower's financial capacity.

Comments: First time home buyer is defined as a person who has not owned his/her own home within the last three years.

Orginations Contact: ___________

Bank Contact: _______________

Massachusetts Affordable Housing Alliance agrees to the following:

Counseling: MAHA will provide regular five week home buyer counseling sessions and three week homeowner workshops for low to moderate income first time buyers and others. MAHA will hold these sessions provided that adequate resources are available to the organization to do so. The home buyer sessions will include:

Understanding mortgage terms
Working with a realtor
Credit history
Qualifying ratios
Home inspections
Downpayments and closing costs
Landlord Responsibilities

The homeowner workshops will include:

budget counseling
savings programs and tax planning
routine home maintenance
home repairs
grants and low interest loans for rehab and repairs
crime and fire safety
homeowners insurance
finding and screening tenants
tenant/landlord issues
lead paint
avoiding default and foreclosure
Boston Building Materials Co-Op
Boston Oil Consumers Alliance

Marketing: MAHA will market the Soft Second Program through its Home Buyers Union members, home buyer classes, information tables, community meetings, and other events.

Homeowner Services: Through its HomeSafe Resource Center, MAHA will provide: one-on-one counseling to program homeowners who find themselves unable to make their mortgage payments on time. MAHA will also provide advice to homeowners who need information about home repair programs, finding and screening tenants, and other issues related to successful homeownership. MAHA will offer these services provided that resources are available to the organization to do so.

MAHA Contacts: Hillary Frank Pizer and Florence Hagins 822-9100

Signed by: ____________________ ____________________

Chief Executive Officer Sovereign Bank New England	Chair MAHA Home Buyers Union

Date: ____________

• Sovereign Community Banking Offices

SOVEREIGN BANK

Community Reinvestment Plan

2003 through 2005

EQUAL HOUSING LENDER

Member FDIC

Introduction

Sovereign Bank is a significant player in community reinvestment in markets where we have a principal banking presence. Through the Bank's 3 year $3.7 billion Community Reinvestment Plan (2000 - 2002) Sovereign exceeded its Plan goals in lending and investments. In addition, the Bank has formed partnerships with numerous community based organizations and established regional advisory committees of community leaders that allow Sovereign to meet its mission to support community reinvestment in low- and moderate-income communities. The bank has also created an internal Community Investment Committee of senior business managers to oversee the implementation of it's Community Reinvestment Plan.

Over the next 3 years (2003 - 2005), Sovereign commits to make a $ 5.0 billion investment in mortgages, consumer loans, small business/farm loans, community development loans, investments/contributions, and employee volunteer/service activities to low- to moderate-income individuals and communities in Pennsylvania, New Jersey, Massachusetts, Connecticut, New Hampshire and Rhode Island.

Revised July, 2004

Community Development Mission Statement

We are committed and dedicated to serving the needs of our communities through investment of the Bank's resources and employee participation. We will continue to build mutually beneficial relations with our customers for the vitality of our communities. Our products and services are designed to address the needs of affordable housing, small business development, community development, health care and education for low- and moderate-income communities and individuals.

Overview

Sovereign Bank's Community Reinvestment Plan (The "Plan") has been developed to continue it's mission to meet the credit and other banking needs of low- and moderate-income individuals and communities in Pennsylvania, New Jersey, Massachusetts, Connecticut, New Hampshire, and Rhode Island.

The Plan is an extension of Sovereign's Corporate Community Reinvestment Act Policy, which ensures that all business units of the Bank are meeting the credit needs of low- and moderate-income areas in the communities we serve.

The Plan contains the following major components:

•Mortgages
•Consumer Credit
•Small Business/Farm Lending
•Community Development Lending
•Low-Income Housing/Historical Tax Credits
•CRA Contributions and Investments
•Service Commitments
•Advisory Committees/Reporting
•Community Investment Committee/Reporting

Mortgages

Sovereign commits to lend over the next 3 years at least $1.425 billion in mortgages to low- and moderate-income individuals and communities in Pennsylvania, New Jersey, Massachusetts, Connecticut, New Hampshire and Rhode Island.

Sovereign provides numerous affordable mortgage products that have been designed to help meet the credit needs of low- and moderate-income customers. The products have been designed by the Bank, State Housing Agencies, Fannie Mae/Freddie Mac and FHA/VA loan programs. Some of the mortgage product features are (1) loans with no minimum balance; (2) maximum loan to value financing with a little as 1% down to purchase a home; (3) higher debt-to-income ratios up to 45% within specific products; (4) discounted interest rates; and (5) down payments that may come from loans, gifts and grants. These products are available through all of Sovereign Bank's branch offices and mortgage loan offices.

Mortgages

2003 - $10
2004 - $13
2005 - $15

2003 - $90
2004 - $140
2005 - $160

2003 - $45
2004 - $45
2005 - $50

2003 - $20
2004 - $21
2005 - $22

2003 - $153
2004 - $157
2005 - $160

$ Millions Per Year

2003 - $106
2004 - $108
2005 - $110

Massachusetts & New Hampshire
Revised July, 2004 for First Essex and
Seacoast acquisitions.

• Sovereign Community Banking Offices

Mortgages
$1.330 billion
$1.425 billion – Revised July 2004

$ Million Per Year

	2003	2004	2005
[redacted]	153	157	160
	106	108	110
	45	45	50
	90	140	160
	20	21	22
	10	13	15
	424	484	517

Consumer Credit

Sovereign commits to lend over the next 3 years at least $1 billion in consumer loans to low- and moderate-income individuals and communities in Pennsylvania, New Jersey, Massachusetts, Connecticut, New Hampshire and Rhode Island.

We will offer all of our existing consumer credit products to low- and moderate-income individuals and areas. Our consumer credit products are designed to provide the maximum affordability to credit qualified applicants.

The Bank will also endeavor to create and work with non-profit organizations and state agencies to develop customized consumer products that assist low- and moderate-income people and areas.

Consumer Credit

2003 - $3
2004 - $10
2005 - $15

2003 - $60
2004 -$160
2005 -$225

2003 - $20
2004 - $22
2005 - $23

2003 - $45
2004 - $50
2005 - $55

2003 - $50
2004 - $58
2005 - $68

$ Millions Per Year

2003 - $42
2004 - $46
2005 - $48

Massachusetts and New Hampshire
Revised July, 2004 for First Essex
and Seacoast acquisitions

• Sovereign Community Banking Offices

Consumer Credit
$745 million
$1 billion – (revised July 2004)

$ Million Per Year

	2003	2004	2005
[redacted]	50	58	68
	42	46	48
	45	50	55
	60	160	225
	20	22	23
	3	10	15
	220	346	434

Small Business/Farm Lending

Sovereign commits to provide over the next 3 years at least $2.064 billion in loans to small businesses/small farms, including micro loans to start-up and existing businesses in its principal banking market. (Small business loans are loans less than $1 million, as defined by CRA regulations.)

Sovereign has an independent business group with locally based relationship managers with lending authority who provide excellent turnaround time and understand the challenges and opportunities facing small businesses. Sovereign employs a second look program for all its small business applications.

Small Business/Farm Lending *(Cont.)*

Sovereign invests and provides educational resources to support micro-enterprise loan programs that provide start-up loans and mentoring for entrepreneurs. These programs are administered by local community-based organizations and private consultants who promote economic development in low- and moderate-income areas. Loans are made up to a maximum of $25,000 with every business submitting a business plan (with appropriate loan loss reserves, structure and collateral). Underwriting decisions are made by the non-profit organization and Sovereign.

Sovereign has become a preferred lender under the Small Business Administration (SBA) program. The Bank has an SBA unit of lenders and underwriters to approve 7A, Fast Track and Low Doc loans to customers who request financing beyond conventional standards.

Government-subsidized and guaranty programs, and local lending pools will be utilized to access businesses that are traditionally underserved.

Small Business/Farm Lending
LMI Only

2003 - $1
2004 - $5
2005 - $7

2003 - $32
2004 - $44
2005 - $45

2003 - $7
2004 - $7
2005 - $8

2003 - $4
2004 - $5
2005 - $6

2003 - $30
2004 - $33
2005 - $34

$ Millions Per Year

2003 - $28
2004 - $30
2005 - $33

Massachusetts & New Hampshire
Revised July, 2004 for First Essex and
Seacoast acquisitions.

• Sovereign Community Banking Offices

Small Business/Farm Lending
$332 million (LMI Only)
$359 million (revised July, 2004)

$ Million Per Year

[redacted]	2003	2004	2005
	30	33	34
	28	30	33
	4	5	6
	32	44	45
	7	7	8
	1	5	7
	102	124	133

All Small Business/Farm Lending
$1.861 billion
$2.064 billion – (revised July, 2004)

$ Million Per Year

	2003	2004	2005
[illegible]	205	215	220
[illegible]	195	200	204
[illegible]	24	25	26
[illegible]	130	175	250
[illegible]	40	42	42
[illegible]	6	25	40
[illegible]	600	682	782

Community Development

Sovereign will provide over the next 3 years at least $379 million in community development loans (as defined by CRA regulations in its principal banking market).

Sovereign will support and promote community development through its commercial/community development lending units. The commercial/community development lending units consist of dedicated lenders who call on non-profit organizations and for profit business developers on economic development projects.

Community Development *(Cont.)*

Sovereign will continue efforts of urban revitalization by providing credit facilities that will support the development of commercial real estate (community center improvements, neighborhood strip shopping centers, social service centers and small business incubators in urban areas).

Sovereign will also provide loans for construction, purchase and/or rehabilitation of multi-family affordable housing projects, residential properties and loans to non-profit organizations, not-for-profit developers and church-related groups for projects that benefit low- and moderate-income areas.

Community Development

2003 -$2
2004 - $3
2005 - $4

2003 - $35
2004 - $37
2005 - $40

2003 - $6
2004 - $8
2005 - $10

2003 - $3
2004 - $4
2005 - $5

2003 - $60
2004 - $63
2005 - $63.3

$ Millions Per Year

2003 - $11
2004 - $12
2005 - $12.7

• Sovereign Community Banking Offices

Community Development
$379 million

[redacted]

$ Million Per Year

[redacted]	2003	2004	2005
	60	63	63.3
	11	12	12.7
	6	8	10
	35	37	40
	3	4	5
	2	3	4
	117	127	135

Investments

The Bank will seek to invest over the next three years $45 - $60 million in CRA qualified community investments that benefit low- and moderate-income individuals and communities in its principal banking market.

These investments will include, but will not be limited to:

- community development financial institutions
- community-based credit unions
- community development corporations and projects
- small business investment corporations
- municipal bonds that support community development

The Bank will also consider investment in mortgage backed securities that benefit low- and moderate-income areas or persons.

The Bank recognizes that CRA qualified investments are an important form of support for the continuing development, revitalization and stabilization of the communities in which we have a principal banking presence.

Affordable Tax Credits

Sovereign will provide at least $93 million in Low-Income Housing Tax Credits over a 3-year period in affordable housing projects in its principal banking markets in Pennsylvania, New Jersey, Massachusetts, Connecticut, New Hampshire and Rhode Island.

Sovereign is an active investor in the purchase of Low-Income Housing Tax Credits and in facilitating these types of housing developments.

Sovereign's community development unit provides the customer construction and permanent financing with fixed interest rates. The Bank's program provides flexibility and innovativeness for the borrower's equity management interest.

Sovereign will seek to form partnerships with non-profit organizations and governmental agencies to facilitate completion of a project. When possible, the bank will provide a letter of credit for bond issues and apply for grants to make community development projects work.

Affordable Tax Credits

2003 -$1
2004 -$1
2005 -$1

2003 - $5
2004 - $5
2005 - $5

2003 - $1
2004 - $2
2005 - $2

2003 - $2
2004 - $2
2005 - $2

2003 - $10
2004 - $10
2005 - $12

$ Millions Per Year

2003 - $10
2004 - $10
2005 - $12

• Sovereign Community Banking Offices

Affordable Tax Credits
$93 Million

$ Million Per Year

	2003	2004	2005
[redacted]	10	10	12
[redacted]	10	10	12
[redacted]	2	2	2
[redacted]	5	5	5
[redacted]	1	2	2
[redacted]	1	1	1
[redacted]	29	30	34

Contributions

Sovereign will strategically contribute over the next 3 years at least $5.351 million in CRA qualified contributions in its principal banking areas in Pennsylvania, New Jersey, Massachusetts, Connecticut, New Hampshire and Rhode Island.

CRA qualified contributions will be made to qualified non-profit organizations for the primary purpose of affordable housing, community development, economic development and neighborhood revitalization. The beneficiaries of CRA qualified contributions are low- to moderate-income individuals, low- to moderate-income communities and small business/small farms.

Contributions

2003 -$25
2004 -$40
2005 -$40

2003 - $515
2004 - $700
2005 - $865

2003 - $80
2004 - $80
2005 - $82

2003 - $60
2004 - $60
2005 - $60

2003 - $590
2004 - $600
2005 - $606

$ Thousand Per Year

2003 - $310
2004 - $315
2005 - $323

Massachusetts & New Hampshire
Revised July, 2004 for First Essex and
Seacoast acquisitions

• Sovereign Community Banking Offices

Contributions
$4.816 Million
$5.351 Million – (revised July 2004)

$ Thousand Per Year

[redacted]	2003	2004	2005
	590	600	606
	310	315	323
	60	60	60
	515	700	865
	80	80	82
	25	40	40
	1.580	1.795	1.976

Volunteer/Service Activities

Sovereign is committed and dedicated to serving the needs of the communities where our employees and customers live and work. Sovereign Team Members volunteer thousands of hours to serve on community boards, mentoring and tutoring students in public schools, and leading United Way campaigns. Our mission is to build mutually beneficial relationships with our customers that make a positive, long term difference in our communities.

KidsBank.com

KidsBank.com is the Bank's public service Internet site providing educational information on banking for young people in a cartoon interactive format.

Educational Support

Sovereign supports educational programs and financial literacy initiatives that provide extended educational opportunities to low- and moderate-income youth in our communities through team member participation in consumer money management workshops, first-time homebuyer seminars and small business development workshops.

CRA Advisory Committees

Sovereign has established seven Regional Advisory Committees of community leaders and non-profit organizations that allow Sovereign Bank to communicate on a regular basis with those who know local needs in a specific market area. The goals of the advisory committees are to support affirmative lending options to all citizens, to monitor lending practices, to provide and identify low-and moderate - income housing and commercial lending opportunities, and to review CRA products and philanthropies. The committees are represented in Pennsylvania, New Jersey, Massachusetts, Connecticut, and Rhode Island.

A report on the performance of the Bank in meeting its community investment goals is provided annually to the community and our advisory committees.

Summary

From 2003 through 2005, Sovereign Bank will make a $5.0 billion investment in mortgages, consumer loans, small business/farm loans, community development loans, investments/contributions, and employee volunteer/service activities to low- to moderate-income individuals and communities in its principal banking areas.

The major components of our Community Reinvestment Plan are:

•Affordable Mortgages – commit to lend over the next 3 years at least $1.425 billion.

•Consumer Credit – commit to lend over the next 3 years at least $1 billion.

•Small Business/Farm Lending – provide over the next 3 years at least $2.064 billion.

Summary *(Cont.)*

•Community Development Lending - provide over the next 3 years at least $379 million.

•Low Income Housing/Historical Tax Credits – commit to invest over the next 3 years at least $93 million.

•CRA Contributions – strategically contribute over the next 3 years at least $5.351 million.

•CRA Qualified Investments – seek to invest over the next 3 years $45 to $60 million

•Service Commitments – KidsBank.com and employee volunteer services

SOVEREIGN BANK
COMMUNITY REINVESTMENT PLAN
SUMMARY

	2003	2004	2005
Mortgages	$424	$484	$517
Consumer	220	346	434
Small Business/Farm	600	682	782
Community Development	117	127	135
Affordable Tax Credits	29	30	34
CRA Qualified Investments	15	18	20
CRA Contributions			
	1.580	1.795	1.976
TOTALS	$ 1,406.6	$ 1,688.8	$ 1,923.9

Community Reinvestment History

Sovereign Bank is a $55 billion financial institution with over 600 community banking offices, 1,000 ATMs and over 9,000 team members in Connecticut, Massachusetts, New Hampshire, New Jersey, Pennsylvania and Rhode Island.

Sovereign has always recognized that addressing the financial needs of the communities where we have a principal banking presence is an important part of our long term success. We continue to make a significant difference in the communities where we live and work by providing the necessary financial products and services.

Sovereign is a significant player in community reinvestment in markets where we have a principal banking presence. In our most recent three year Community Reinvestment Plan (2000 - 2002), the Bank exceeded its plan goals in lending and investments to low- and moderate-income communities and individuals.

Community Reinvestment Plan Performance

•Over $2 billion in small business loans including participation in the Small Business Administration lending programs.

•Over $1.5 billion in mortgage loans to low- and moderate-income communities and individuals.

•Over $1.5 billion in consumer loans to low- and moderate-income communities and individuals.

•Over $.5 billion in community economic development lending.

•Over $100 million in low income housing tax credit investments in affordable multi-family housing.

•Over 200 partnerships with non-profit community based organizations.

Community Reinvestment Plan Performance *(Cont.)*

•Team members volunteer thousands of hours serving on community boards, mentoring and tutoring students in public schools, including building houses for Habitat for Humanity and leading United Way campaigns.

•Organized regional CRA Advisory Committees of community leaders and non-profit organizations to oversee affirmative lending programs to all segments of ou banking communities.

•KidsBank.com - Sovereign's public service Internet site provided educational information on banking for over several thousand young people in the community banking areas.

•Sovereign Bank Foundation contributed over $5 million to non-profit organizati that provide economic and community development services and youth and educational programs to low- and moderate-income communities and individuals

Community Reinvestment Plan
2003 – 2005
Revised July, 2004

	Massachusetts		New Hampshire	
	Original Plan Goal	Revised Goal	Original Plan Goal	Revised Goal
Mortgages	$ 210	$ 300	$ 23	$28
Consumer	146	385	9	25
Small Business	273	425	14	65
Contributions	1.060	1.600	.050	.080

The Plan revisions are effective July, 2004 through the remainder of the Plan period ending December, 2005 following the acquisitions of First Essex Bank and Seacoast Financial Corporation. Adjustments were made to the original Plan goals for lending and investments that were established for Massachusetts and New Hampshire. Sovereign's total commitment to community reinvestment for the three year Plan period (2003 – 2005) is increased from $4.5 billion to $5.0 billion.

SOVEREIGN BANK

COMMUNITY REINVESTMENT PLAN

PERFORMANCE REPORT

December 31, 2003

COMMUNITY REINVESTMENT PLAN

Performance Summary
December 31, 2003

Enclosed is Sovereign Bank's Performance Summary report showing it's lending and investment activity in mortgages, consumer loans, small business loans, community development lending and contributions to low- and moderate-income individuals and communities in the Bank's assessment areas. The summary report shows specific performance results by state for each level of business to the goals outlined in our Community Reinvestment Plan for year end 2003.

Below is a summary of the lending activity for year end 2003.

Mortgages

Loans to LMI borrowers equaled $980 million or 231% of the mortgage loan goal. The lending results continue to be outstanding as market interest rates remain low with mortgage refinancing reaching record levels. Mortgage refinancing year-to-date equal 68% of our total mortgage loan originations.

Consumer

Loans to LMI borrowers equaled $663 million or 301% of Plan goal. Consumer lending volumes remain significant in auto and home equity loans. Auto loan lending volume granted to low- and moderate-income borrowers equaled 60% of total consumer lending. Consumer lending volume continues to be affected by low consumer market rates.

Small Business/Farm Lending

In the third quarter 2003 small business lending equaled $708 million or 118% of Plan goal. The bank continues to show outstanding distribution of small business loans in LMI census tracts where lending equaled $154 million. In addition loans less than $250,000 equaled 88% of total loans booked.

SOVEREIGN BANK
Community Reinvestment Plan

Performance Summary
December 31, 2003

	2003 Plan Goal	Actual Originations Assessment Area	% of Goal
Mortgages LMI	$ 424	$ 980	231
Consumer LMI	220	663	301
Small Business	600	708	118
Community Development	117	187	160
Affordable Tax Credits	29	$ 36	124
TOTALS	$ 1,390	$ 2,574	185%

Notes:
$ in millions

SOVEREIGN BANK
Community Reinvestment Plan

Mortgage Originations
LMI Borrowers
December 31, 2003

State	2003 Plan Goal	Loan Originations	% of Goal
Pennsylvania	$ 153	$ 341	223
New Jersey	106	208	196
Connecticut	45	70	156
Massachusetts	90	292	324
Rhode Island	20	54	270
New Hampshire	10	15	150
TOTALS	$ 424	$ 980	231%

Notes:
$ in Millions

SOVEREIGN BANK
Community Reinvestment Plan

Consumer Originations
LMI Borrowers
December 31, 2003

State	2003 Plan Goal	Loan Originations	% of Goal
Pennsylvania	$ 50	$ 107	214
New Jersey	42	118	281
Connecticut	45	167	371
Massachusetts	60	216	360
Rhode Island	20	41	205
New Hampshire	3	14	467
TOTALS	$ 220	$ 663	301%

Notes:
$ in Millions

SOVEREIGN BANK
Community Reinvestment Plan

Small Business/Farm Lending
December 31, 2003

State	2003 Plan Goal	Loan Activity	% of Goal
Pennsylvania	$ 205	$ 209	102
New Jersey	195	148	76
Connecticut	24	43	179
Massachusetts	130	241	185
Rhode Island	40	54	135
New Hampshire	6	13	217
TOTALS	$ 600	$ 708	118%

Notes
$ in Millions

SOVEREIGN BANK
Community Reinvestment Plan

Contributions and Investments
December 31, 2003

State	2003 Plan Goal	Activity	% of Goal
Pennsylvania	$ 0.590	$ 0.546	93
New Jersey	0.310	0.324	105
Connecticut	0.060	0.063	105
Massachusetts	0.515	0.577	112
Rhode Island	0.080	0.120	150
New Hampshire	0.025	0.003	12
TOTALS	$ 1.6	$ 1.633	102%

Notes:
$ in Millions

SOVEREIGN BANK
Community Reinvestment Plan

Affordable Tax Credits
December 31, 2003

State	2003 Plan Goal	Activity	% of Goal	Pipeline
Pennsylvania	$ 10	18.6	186	$ -
New Jersey	10	10.2	102	5.3
Connecticut	2	1.2	60	3.6
Massachusetts	5	3.9	78	7.1
Rhode Island	1	1.6	160	-
New Hampshire	1	0.5	50	3.2
TOTALS	$ 29	$ 36.0	124%	$ 19.2

Note
$ in Millions

SOVEREIGN BANK
Community Reinvestment Plan

Community Development Lending
December 31, 2003

State	2003 Plan Goal	Activity	% of Goal
Pennsylvania	$ 60	$ 88	147
New Jersey	11	33	300
Connecticut	6	35	577
Massachusetts	35	34	98
Rhode Island	3	7	238
New Hampshire	2	0.5	40
TOTALS	$ 117	$ 197	168%

Notes:
$ in Millions

SOVEREIGN BANK

COMMUNITY REINVESTMENT PLAN

PERFORMANCE REPORT

September 30, 2004

COMMUNITY REINVESTMENT PLAN

Performance Summary

September 30, 2004

Enclosed is Sovereign Bank's Performance Summary report showing it's lending and investment activity in mortgages, consumer loans, small business loans, community development lending and contributions to low- and moderate-income individuals and communities in the Bank's assessment areas. The summary report shows specific performance results by state for each level of business to the goals outlined in our Community Reinvestment Plan for 2004 through September 30th.

Below is a summary of the lending activity for 2004 through September 30th.

Mortgages

Loans to LMI borrowers equaled $419 million or 95% of the mortgage loan goal. The bank originated 71% of it's mortgage loan originations in it's assessment areas. Market interest rates continue to move up slightly in the quarter. Our mortgage lending for home purchases increased while mortgage refinances reduced slightly.

Consumer

Loans to LMI borrowers equaled $482 million or 193% of Plan goal. Consumer lending volumes remain significant in auto and home equity loans. 58% of the auto loan lending volume was granted to low- and moderate-income borrowers. The lower consumer market rates continue to drive our consumer lending business.

Small Business/Farm Lending

Through the 3rd quarter small business lending equaled $479 million or 77% of Plan goal. The bank provided 76% of it's total small business lending in it's assessment areas. The bank continues to show outstanding distribution of small business loans in LMI census tracts where lending equaled $106 million. In addition loans less than $250,000 equaled 85% of total loans booked.

SOVEREIGN BANK
Community Reinvestment Plan

Performance Summary
September 30, 2004

	2004 Plan Goal	Actual Originations Assessment Area	% of Goal
Mortgages LMI	$ 442	$ 419	95%
Consumer LMI	250	482	193%
Small Business	624	479	77%
Community Development	127	144	113%
Affordable Tax Credits	30	15.4	51%
TOTALS	$ 1,473	$ 1,539.4	105%

Notes:
$ in millions

SOVEREIGN BANK
Community Reinvestment Plan

Mortgage Originations
LMI Borrowers
September 30, 2004

State	2004 Plan Goal	Loan Originations	% of Goal
Pennsylvania	$ 157	$ 167	106%
New Jersey	108	90	83%
Connecticut	45	31	69%
Massachusetts	100	97	97%
Rhode Island	21	25	119%
New Hampshire	11	9	82%
TOTALS	$ 442	$ 419	95%

Notes:
$ in Millions

SOVEREIGN BANK
Community Reinvestment Plan

Consumer Originations
LMI Borrowers
0/30/2004

State	2004 Plan Goal	Loan Originations	% of Goal
Pennsylvania	$ 58	$ 94	162%
New Jersey	46	88	191%
Connecticut	50	110	220%
Massachusetts	70	147	210%
Rhode Island	22	29	132%
New Hampshire	4	14	350%
TOTALS	$ 250	$ 482	193%

Notes:
$ in Millions

SOVEREIGN BANK
Community Reinvestment Plan

Small Business/Farm Lending
September 30, 2004

State	2004 Plan Goal	Loan Activity	% of Goal
Pennsylvania	$ 215	$ 139	65%
New Jersey	200	87	44%
Connecticut	25	42	168%
Massachusetts	135	140	104%
Rhode Island	42	47	112%
New Hampshire	7	24	343%
TOTALS	$ 624	$ 479	77%

Notes
$ in Millions

SOVEREIGN BANK
Community Reinvestment Plan

Contributions and Investments
September 30, 2004

State	2004 Plan Goal	Activity	% of Goal
Pennsylvania	$ 0.600	$ 0.448	75%
New Jersey	0.315	0.210	67%
Connecticut	0.060	0.074	123%
Massachusetts	0.525	0.446	85%
Rhode Island	0.080	0.062	78%
New Hampshire	0.025	0.008	32%
TOTALS	$ 1.605	$ 1.248	78%

Notes:
$ in Millions

SOVEREIGN BANK
Community Reinvestment Plan

Affordable Tax Credits
September 30, 2004

State	2004 Plan Goal	Activity	% of Goal	Pipeline
Pennsylvania	$ 10	1.1	11%	$ 1.5
New Jersey	10	7.4	74%	7.9
Connecticut	2	-	0%	6.7
Massachusetts	5	6.9	138%	12.4
Rhode Island	2	-	0%	5.0
New Hampshire	1	-	0%	3.0
TOTALS	$ 30	$ 15.4	51%	$ 36.5

Note:
$ in Millions

COMMUNITY INVESTMENT AGREEMENT

BETWEEN

SOVEREIGN BANK

AND

COMMUNITY ADVISORY COMMITTEE

Dated December 1, 2004

Sovereign Bank (the Bank), and the Community Advisory Committee (CAC) share a common goal and belief in serving the socially and economically diverse communities of Massachusetts. In furtherance of this common goal the Bank and the CAC under this Agreement shall work together to provide financing for affordable housing and economic development projects that serve to benefit low and moderate-income residents and communities.

The Bank will make a commitment of $3.6 billion during years 2004 – 2008 toward specific goals for loans, investments and services within the Commonwealth of Massachusetts (the Commonwealth). The Bank is making this commitment in conjunction with its Community Reinvestment Plan that presently runs from 2003 – 2005. The enhancement of the current Community Reinvestment Plan reflects the increased assets acquired or about to be acquired in the Commonwealth. The lending and investment programs provided herein are intended to promote this commitment.

The Bank will maintain its Commonwealth Advisory Group (The CAG) for Massachusetts to monitor and advise on the performance of the Agreement. The Committee will meet quarterly and be comprised of approximately twelve members including four community members of the CAC and Community and small business members at large.

SECTION I: AFFORDABLE MORTGAGE LENDING

The Bank commits to lend over the term of this Agreement a minimum of $940 million in mortgages to low and moderate-income individuals in Massachusetts. The Bank will use it's Affordable Mortgage Product, Exhibit I, and other qualified mortgage products such as the Fannie Mae Community Homebuyer's Program and Freddie MAC Community Gold Program to make financing available to low and moderate-income applicants in Massachusetts. Mortgage financing will be available for Home Purchase transactions and Refinance loans to low and moderate-income residents. The Bank will also use the Soft Second mortgage program and work with qualified non-profit homeownership counseling agencies who specialize in pre-and post purchase counseling. The Bank's commitment toward the Soft Second mortgage program is spelled out in its Memorandum of Understanding, see Exhibit II, with the Massachusetts Affordable Housing Alliance.

The Bank will work to reduce loan defaults and foreclosures by contracting with counseling agencies on a fee for service basis, which employs comprehensive pre and/or post purchase counseling programs.

SECTION II: **SMALL BUSINESS LENDING**

The Bank agrees to lend a minimum of $1.2 billion in small business loans in Massachusetts during the term of this agreement. A small business loan is any business loan in the amount of $1 million or less, not secured by residential real estate. The Bank will work with community development corporations and the minority business community to finance economic development initiatives including commercial development and revitalization, small business start-ups and expansion, job linkage and work force development projects. Particular emphasis will be placed on projects that create jobs for lower income residents of urban areas and lower income communities. The Bank will support organizations which provide financial and technical assistance to small, minority and women-owned businesses. Specifically, the Bank will use the following Critical Success Factors to achieve its small business lending commitment. Within the $1.2 billion lending commitment, the bank will make available the following specific commitment: See Exhibit III.

The Bank will also provide SBA and other loan guarantee and credit enhancement programs. In addition, the Bank will provide fast credit turnaround time and a guaranteed second look program to applicants not meeting underwriting criteria and ascertain whether mitigating circumstances and/or credit enhancement would allow granting of credit.

SECTION III: **EQUITY INVESTMENTS**

The Bank agrees to invest over the term of this Agreement a minimum of $30 million in equity positions in community development financial institutions, community development corporations, equity loan pools and/or various collaboratives that serve low and moderate-income owned businesses, minority and women-owned businesses and businesses that serve low and moderate-income areas of Massachusetts as well as direct equity investment participations that provide a competitive market return to the Bank.

In addition, the Bank will seek to invest over the term of this Agreement a minimum of $30 million in the purchase of Low Income Housing Tax Credits. As an equity investor, the Bank will participate as a limited partner in projects with priority given to non-profits, family and urban projects.

SECTION IV: **LOANS and INVESTMENTS IN EMPOWERMENT and ENTERPIZE ZONES**

The Bank will make available $25 million in loans and investments in the Empowerment and Enterprise Zones, in Boston, Worcester, and Springfield during the term of this agreement.

***SECTION V:* RETENTION and CREATION OF BRANCHES IN LOW and MODERATE-INCOME AND MINORITY AREAS**

The Bank agrees to provide the National Association for the Advancement of Colored People – New England Area Conference (NAACP–NEAC) with advance notice of any planned branch closings 30 days prior to the time required by regulation 12 U.S.C. 183lr-1 that may be located in a low- and moderate-income area or predominantly minority census tracts as determined by the federal census data. The Bank agrees to meet with NAACP–NEAC to review the business reasons for a planned branch closing, if requested. The Bank will look at the impact a branch closing will have in the immediate community and give consideration to making available to community based development organizations branch buildings that become vacant.

***SECTION VI*: HUMAN RESOURCES DIVERSITY COMMITMENT**

The Bank's senior management remains committed to achieving diversity within all levels of its workforce and its Board that is reflective of the communities it serves. As a reflection of this commitment, Sovereign will:

- Commit to achieve a minimum of 20% racial diversity and 20% female employee diversity within all EEO-designated categories
- Initiate bank staffing and development initiatives to provide professional growth to Team Members
- Initiate a strategic plan to address retention rates for Team Members in general and diverse Team Member population specifically
- Ensure integrity and permanence of diversity culture
- Commitment to develop a plan to achieve above stated goals

The Bank will report the progress on the implementation of these initiatives to designated members of the CAC quarterly and semi-annually to the CAG.

***SECTION VII:* PROCUREMENT**

The Bank recognizes the importance of strengthening minority and women owned businesses enterprises (M/WBE) as they contribute to the overall economic growth and expansion of our business markets.

The Bank's senior management is committed to utilizing minority and women vendors that are reflective of the communities served in the Commonwealth of Massachusetts. The Bank is committed to achieving a goal of 20% of all goods and services for business lines purchasing within Massachusetts be from minority vendors when there are certified minority vendors able to bid on the work. In addition, the bank is committed to achieving a goal of 15% of all goods and services purchased for business lines purchasing within Massachusetts be from women owned businesses when there are certified women owned vendors able to bid on the work.

The Office of Diversity's Performance and Monitoring program will ensure implementation of Sovereign's Massachusetts M/WBE program with accountability residing with business line leaders. Assistance in achieving these goals will be provided from the Diversity Office, Legal Department, Privacy and Purchasing and have the executive oversight of the President of Sovereign Bank New England Division.

Performance reports outlining the M/WBE spend will be provided to the CAC on a quarterly basis and semi–annually to the CAG.

***SECTION VIII:* COMMUNITY DEVELOPMENT FINANCING**

The Bank agrees to lend over the term of this Agreement a minimum of $222 million in community development financing in Massachusetts for affordable housing projects and commercial real estate sponsored by for profit and non-profit organizations. Financing will include acquisition, construction and permanent loans. The Bank will make every effort to provide 60% of financing to affordable housing projects and 40% to commercial real estate that benefits low and moderate-income communities.

***SECTION IX:* GRANTS**

During the term of the Agreement the Bank will make available $4.5 million in grants to community-based non-profit organizations involved in affordable housing, community economic development initiatives, educational and human service programs and arts and cultural programs that improve the needs of low- and moderate-income communities and individuals as well as grant support for civil rights related advocacy such as community organizing, diversity education, expanding awareness and understanding of racial and gender economic disparities, research and litigation to enforce civil rights laws, and other such efforts, which can affect public policy and business practices.

SIGNED:

Dianne Wilkerson

Senator Dianne Wilkerson
Convenor
Community Advisory Committee

Joseph P. Campanelli
President & Chief Operating Officer
Sovereign Bank

We, the following community based organizations, have agreed to work with Sovereign Bank toward the effective implementation of this agreement.

Community Advisory Committee

Committee Members

NAME LEONARD C. ALKINS	ORGANIZATION	SIGNATURE
[illegible]	NAACP Boston Branch #2045	[illegible]
[illegible]	Urban League of Eastern Mass	[illegible]
[illegible]	NAACP / NEAC	[illegible]
Augusto Grace	Sen. John Kerry	[illegible]
[illegible]	Friends of the Community	[illegible]
[illegible]	[illegible] Educational Service	[illegible]
Angela S. Grace	Councelor Chuck Turner	Angela S Grace
[illegible]	Citizens' Housing & Planning Assoc.	[illegible]
RALPH COOPER	VETERANS BENEFITS CLEARINGHOUSE	[illegible]
Donovan Walker	Developmental Neighborhood [illegible]	Donovan Walker
George Greenidge	Boston Connects Inc/National Black College Alliance	[illegible]
BRUCE BICKERSTAFF	ROXBURY NEIBORHOOD COUNCIL	Bruce Bickerstaff
DAVID HARRIS	FHCGB	David Harris

SOVEREIGN BANK

Massachusetts Community Reinvestment Commitment 2004 to 2008

Small Business Lending	$1,200*
Consumer	1,196
Affordable Mortgage Lending	940
Commercial Community Development	222
Equity Investments	30
Low Income Housing Tax Credits	30
Loans and Investments in designated Empowerment Zones	25
Grants	4.5
Total Lending and Investments	$ 3,648

*In millions

SOVEREIGN BANK

ASSESSMENT AREA

2004

State	MSA	County
Massachusetts	1448	Norfolk, Plymouth, Suffolk,
		Barnstable
		Dukes
	2160	Essex
	1576	Middlesex
		Nantucket
	3930	Bristol
	4414	Franklin, Hampden, Hampshire
	4934	Worcester

Exhibit I

SOVEREIGN BANK

Affordable Mortgage Product

MASSACHUSETTS

Term		30 years	
Minimum Mortgage		None	
Maximum Mortgage	*Purchase*	*Rate/Term Refinance*	*Cash Out Refinance*
Primary Homes – 1 Unit	97% - $322,700	95% - $322,700	90% - $322,700
Primary Homes – 2 Units	97% - $413,100	95% - $413,100	90% - $413,100
Primary Homes – 3 Units	95% - $499,300	95% - $499,300	
Primary Homes – 4 Units	95% - $620,500	95% - $620,500	

Eligible Properties

Primary residences only
1 – 4 Unit, Single Family Dwelling, Condos and PUDS
(Must be FNMA/FHLMC warrantable)

Income Qualification:

- Maximum 80% of median household income for applicable MSA in the bank's assessment area or
- Maximum 100% of median household income and property must be in a low to moderate-income census tract in the bank's assessment area.
- Maximum 120% of median household income in low to moderate-income census tracts in the cities of Boston, Brockton and Springfield.

Note: Cash-out refinances are limited to 100% of median household income in Massachusetts.

Mortgage Insurance: Required

Interest Rate: The interest rate will be discounted ½ of 1% below the bank's zero point market rate.

Rate Lock: No lock fee is required. The lock period is 90 days and may be extended for an additional 30 days for .125 points payable at closing.

Points: None

EXHIBIT II

Memorandum of Understanding Between Sovereign Bank New England and the Massachusetts Affordable Housing Alliance

Sovereign Bank New England has agreed to provide home purchase mortgages to a total of 275 first time home buyers (75 in 2004, 100 in 2005, and 100 in 2006) through the SoftSecond First Time Home Buyers Program in the city of Boston.

In addition, Sovereign Bank New England has agreed to provide home purchase mortgages to a total of 300 first time home buyers (100 in each of the years 2004-2006) through the SoftSecond first time home buyers program in the balance of the state.

This program was developed by the Massachusetts Affordable Housing Alliance (MAHA), banks, and state and city officials.

Sovereign Bank New England and MAHA agree to the following terms and conditions:

Commitment: Sovereign Bank New England commits to provide first and second mortgages through the SoftSecond mortgage program to a total of 275 qualified first time home buyers (75 in 2004, 100 in 2005, and 100 in 2006) for the purchase of one, two, and three family properties in the city of Boston. In addition, Sovereign Bank New England agrees to providehome purchase mortgages to a total of 300 first time home buyers (100 in each of the years 2004-2006) through the SoftSecond Program in the balance of the state.

MAHA agrees to continue to provide all of the services to first time home buyers and new homeowners outlined in our memorandum of understanding with the bank, provided that adequate funding continues to be available to MAHA to do so.

MAHA reserves the right to re-open discussion of this agreement if, during the period covered by the agreement, the bank substantially increases its presence in the city of Boston through expansion, acquisitions, or mergers.

Program: To provide first and "soft second" loans to low and moderate income first time home buyers. The maximum first mortgage amount will represent 77% loan to value and the second mortgage will represent the greater of $20,000 or 20% loan to value.

Soft Second: $20,000 or 20% loan to value, whichever is greater. Principal is deferred for 10 years and Massachusetts Housing Partnership (MHP) funds may be used to supplement interest only payments for the first nine years. MHP provides a loan loss reserve of 10% of all soft second loans which eliminates the need for Private Mortgage Insurance.

Interest Rate: Interest rate on the first and second mortgages will be 50 basis points below the bank's 30 year fixed, two point rate. No points will be charged to the borrower.

The following alternative pricing structure may also be used:

The interest rate on the first will be the same as the bank's 30 year fixed 2 point rate. The interest rate on the second will be 237 basis points below the bank's 30 year fixed 2 point rate. The discount on the second mortgage will be sufficient to keep the borrowers' payments to very close to what they would have paid under the program structure described above. No points will be charged to the borrower.

Loan Terms: First Mortgage - 30 year Fixed Rate Mortgage
Second Mortgage - Interest only for the first 10 years
30 year maturity
Amortized over 20 years after first 10 years

Subsidy: MHP funds the lender the net present value subsidy amount and places 10% of the Second Mortgage amount into the separate Loan Loss Reserve Account held at MHP.

Borrowers are provided subsidy when income is not high enough to fully cover monthly housing costs. A subsidy "phase out" gradually increases the borrower's share of the second mortgage payments. MHP will not subsidize borrowers' interest payments below the point where the borrower is paying 28% of his/her income for housing debt. The maximum public subsidy will be determined by MHP program guidelines:

Eligible Properties: Property must be located within a participating community in the Commonwealth of Massachusetts. One, Two, and Three Family owner occupied primary residences only.

Income Limits: Income limits are determined by MHP.

Loan-To-Value: Maximum loan to value of 97% (excluding MHP subsidy provided as a deferred payment loan).

Maximum Purchase Prices: As set by the Massachusetts Housing Partnership.

Income: Ability to repay will be determined by taking into account all eligible income from wages, pensions, interest, dividends, and government sources. Non-taxed income such as Social Security shall be considered at 125% of the actual amount.

Child Support: Alimony Child support and alimony will be accepted as income provided that proof of receipt is available and the payment can be expected to continue for at least three years. Borrower must provide verification of receipt of payment for the last 12 months (i.e. copies of canceled checks, bank statements with regular deposits, verifications from court). A full divorce decree or separation agreement is required.

Borrowers responsible for child support and/or alimony payments must provide a copy of the full divorce decree or another document evidencing the monthly liability.

Qualifying Ratios: Maximum ratio of 33%/38% for one-family homes. 28/36% for 2-family and 3-family homes Only borrower's share of the second mortgage payments used to calculate debt-to-income ratio in the initial years.

Rental Income: 75% of gross rent deducted directly from PITI. PITI may not exceed 50% of borrower's gross monthly income (excluding rental income).

For three family homes, underwriting for rental income will be as follows: 75% of gross rent deducted directly from PITI. PITI may not exceed 50% of the sum of borrower's gross monthly income plus rent from one of the rental units.

Purchase & : Rehab Sovereign Bank New England agrees to offer buyers the option of a purchase and rehabilitation loan through the SoftSecond program. Maximum loan to value will be 97% of the property's "as completed" value or purchase price plus cost to rehab, whichever is less. The cost of the improvements may not exceed $50,000. The purchase and rehab loan may include fees due to the rehab agent as well as carrying costs for the property during the rehab period.

A cost estimate of work, and specifications for the work from a licensed contractor and from a qualified Rehabilitation Specialist should accompany the application. An appraisal will be ordered by the bank when the application is received; that appraisal will determine the "as completed value".

If the property contains lead paint and additional funds for de-leading are obtained through public sources willing to be in fourth position,

cumulative loan to value may exceed 97%. In no case shall the bank's liability exceed 97% loan to value.

All rehabilitation work must be carried out by licensed contractors. No "sweat equity" is permitted. Rehab Agent must oversee work and sign off on disbursement of funds to contractors.

Gifts: Of the 3% minimum downpayment on single family homes and condominiums, 1.5% must come from the borrower's own funds; the remaining 1.5% may come from (1) a gift from a family member or an unrestricted grant without terms for recapture or repayment from a non-profit organization, (2) a gift or unrestricted grant without terms for recapture or repayment from the FDIC or (3) a secured grant from a non-profit organization or government agency that is not due and payable until the sale or refinance of the property. The remainder can not come from the seller.

Of the 3% minimum downpayment on two and three family homes, 1.5% must come from the borrower's own funds. The remaining 1.5% may come from sources (1) through (3), as outlined above. The remainder can not come from the seller.

Closing costs and prepaid items may be paid from gifts. Gifts are allowed from a family member or a grant or an unsecured loan from a non-profit organization or public entity, so long as the borrower has met the minimum downpayment requirements. The seller of the property may also pay the closing costs. However, contributions by the seller are subject to the following limitations:

In the case of loan-to-value of less than or equal to 90%, contributions are allowed up to 6% of the appraised value or sales price, whichever is less.

In the case of loan-to-value of greater than 90%, contributions are allowed up to 3% of the appraised value or sales price, whichever is less.

The seller may not pay prepaid items.

Closing Costs: As negotiated.

Employment: All borrowers should have two full years of employment activity history for income utilization. There is an emphasis on income stability rather than job stability. It is acceptable as long as a two year history of stable income exists, employment gaps are explained, and the borrower(s) works in a field in which other employment opportunities with similar incomes are readily available.

Self employed: Self employed borrowers must have a two year history in same profession. Income must be verified with two years of personal and/or corporate income tax returns, along with all supporting schedules and Year To Date Profit and Loss Statement and Balance Sheet.

Credit: The most recent 12 months of a borrower's credit history will be reviewed for minor instances of derogatory credit to ascertain that the borrower has a sufficient number of accounts without adverse ratings to support a determination that the overall credit history is an acceptable one. The borrower's credit history must demonstrate a willingness to repay debt. Each evaluation of credit will be reviewed on a case by case basis. A decision will be made at the lender's discretion.

All late payments within the past two years are to be explained. Any excessive or recurring late payments beyond two years may also require explanations.

Credit inquiries that are less than 90 days old and do not appear as open credit on the credit report will require a written explanation from the borrower or creditor.

Outstanding collection accounts must be brought current. Limited or no credit history can be supported by evidence of rent and/or utility payments.

At least two years must have elapsed since any bankruptcy was discharged. Borrowers must have re-established credit. A satisfactory letter of explanation and a letter of discharge and Schedule of Credits listing all debts is required.

Private Mortgage Insurance: None required.

Pre-Qualification: The bank pre-qualifies applicants and calls MHP, then mails in Registration upon collection of a $25 fee payable to MHP.

Home Buyer Education: The buyer must present evidence that he/she has enrolled in a Homeownership Collaborative- certified home buyer education program. The program must include information about homeowner/landlord responsibilities such as home maintenance, budgeting, tenant selection, and tenant-landlord law. The borrower must receive a graduation certificate before the loan is closed.

Reserves: 2 months PITI (principle, interest, taxes, insurance) is waived.

Escrows: Real estate taxes, hazard insurance, and flood insurance (if applicable) required.

Marketing: The bank agrees to market the SoftSecond Program through all of its mortgage marketing efforts, including, but not limited to, contact and communication with local realtors and information posted and/or distributed at home buyer seminars, neighborhood branches, and local housing fairs. The bank will work with MAHA to develop a coordinated marketing campaign designed to maximize participation of minority households and households with annual incomes below $25,000.

The bank agrees to review its marketing efforts and loan closings in the SoftSecond Program annually with MAHA members and/or staff. If the number of loans closed during any year covered under this agreement is less than the number committed, the bank agrees to carry over the unused allocation and expand its neighborhood based advertising and marketing of the SoftSecond Program during the following year.

Privacy Waiver: Loan applicants will sign and submit to MAHA a privacy waiver. This privacy waiver will give permission to the bank to discuss the customer's credit situation with designated representatives of MAHA. The waiver will also enable the bank to refer borrowers who are unable to make payments due to circumstances beyond their control to MAHA's post-purchase counselor. Upon determination of the nature and extent of the borrower's hardship and analysis of the borrower's financial condition, the bank will work with the borrower and MAHA to attempt to develop a mutually acceptable payment schedule that would provide repayment within the borrower's financial capacity.

Comments: First time home buyer is defined as a person who has not owned a home within the last three years.

Orginations Contact: STEVE POWERS 1·508·620·3275

Bank Contact: TOM KENNEDY 1·617·~~[illegible]~~757·3919

Massachusetts Affordable Housing Alliance (MAHA) agrees to the following:

Counseling: MAHA will provide regular five week home buyer counseling sessions and three week homeowner workshops for low to moderate income first time buyers and others. MAHA will hold these sessions provided that adequate resources are available to the organization to do so. The home buyer sessions will include:

Understanding mortgage terms
Working with a realtor
Credit history
Qualifying ratios
Home inspections
Downpayments and closing costs
Landlord Responsibilities

The homeowner workshops will include:

budget counseling
savings programs and tax planning
routine home maintenance
home repairs
grants and low interest loans for weatherization, rehab and repairs
crime and fire safety
homeowners insurance
finding and screening tenants
tenant/landlord issues
lead paint
avoiding default and foreclosure
Boston Building Materials Co-Op
Boston Oil Consumers Alliance

Marketing: MAHA will market the SoftSecond Program through its Home Buyers Union members, home buyer classes, information tables, community meetings, and other events.

Homeowner Services: Through its HomeSafe Resource Center, MAHA will provide one-on-one counseling to program homeowners who find themselves unable to make their mortgage payments on time. MAHA will also provide advice to homeowners who need information about home repair programs, finding and screening tenants, and other issues related to successful homeownership. MAHA will offer these services provided that resources are available to the organization to do so.

MAHA Contacts: Hillary Pizer and Florence Hagins 822-9100

Signed by: Thomas B. Kennedy Florence Hagins

Title SVP Title Assistant Director

Bank Sovereign Mass. Affordable Housing Alliance

Date: February 23, 2004 Date: February 23, 2004

Exhibit III

COMMUNITY INVESTMENT AGREEMENT

BETWEEN

SOVEREIGN BANK

AND

COMMUNITY ADVISORY COMMITTEE

Dated December 1, 2004

Following is Sovereign Bank's commitment to small business lending as described in Section II, Page 2 of the subject Agreement. The Bank's lending commitment is established from the new demographic data released by the Fed in determining the Bank's assessment areas and branch locations in low and moderate income communities in Massachusetts

All other terms and conditions of Section II Small Business Lending remain.

Loans in Low and Moderate Income Census Tracts	300
Loans < or equal to $100,000	300
Loans to companies with revenues <$1 million	300
Loans in > 50% Minority Census Tracts	120

Memorandum of Understanding
Between
Sovereign Bank New England
and the
Massachusetts Affordable Housing Alliance

Sovereign Bank New England has agreed to provide home purchase mortgages to a total of 275 first time home buyers (75 in 2004, 100 in 2005, and 100 in 2006) through the SoftSecond First Time Home Buyers Program in the city of Boston.

In addition, Sovereign Bank New England has agreed to provide home purchase mortgages to a total of 300 first time home buyers (100 in each of the years 2004-2006) through the SoftSecond first time home buyers program in the balance of the state.

This program was developed by the Massachusetts Affordable Housing Alliance (MAHA), banks, and state and city officials.

Sovereign Bank New England and MAHA agree to the following terms and conditions:

Commitment: Sovereign Bank New England commits to provide first and second mortgages through the SoftSecond mortgage program to a total of 275 qualified first time home buyers (75 in 2004, 100 in 2005, and 100 in 2006) for the purchase of one, two, and three family properties in the city of Boston. In addition, Sovereign Bank New England agrees to providehome purchase mortgages to a total of 300 first time home buyers (100 in each of the years 2004-2006) through the SoftSecond Program in the balance of the state.

MAHA agrees to continue to provide all of the services to first time home buyers and new homeowners outlined in our memorandum of understanding with the bank, provided that adequate funding continues to be available to MAHA to do so.

MAHA reserves the right to re-open discussion of this agreement if, during the period covered by the agreement, the bank substantially increases its presence in the city of Boston through expansion, acquisitions, or mergers.

Program: To provide first and "soft second" loans to low and moderate income first time home buyers. The maximum first mortgage amount will represent 77% loan to value and the second mortgage will represent the greater of $20,000 or 20% loan to value.

Soft Second: $20,000 or 20% loan to value, whichever is greater. Principal is deferred for 10 years and Massachusetts Housing Partnership (MHP) funds may be used to supplement interest only payments for the first nine years. MHP provides a loan loss reserve of 10% of all soft second loans which eliminates the need for Private Mortgage Insurance.

Interest Rate: Interest rate on the first and second mortgages will be 50 basis points below the bank's 30 year fixed, two point rate. No points will be charged to the borrower.

The following alternative pricing structure may also be used:

The interest rate on the first will be the same as the bank's 30 year fixed 2 point rate. The interest rate on the second will be 237 basis points below the bank's 30 year fixed 2 point rate. The discount on the second mortgage will be sufficient to keep the borrowers' payments to very close to what they would have paid under the program structure described above. No points will be charged to the borrower.

Loan Terms: First Mortgage - 30 year Fixed Rate Mortgage
Second Mortgage - Interest only for the first 10 years
30 year maturity
Amortized over 20 years after first 10 years

Subsidy: MHP funds the lender the net present value subsidy amount and places 10% of the Second Mortgage amount into the separate Loan Loss Reserve Account held at MHP.

Borrowers are provided subsidy when income is not high enough to fully cover monthly housing costs. A subsidy "phase out" gradually increases the borrower's share of the second mortgage payments. MHP will not subsidize borrowers' interest payments below the point where the borrower is paying 28% of his/her income for housing debt. The maximum public subsidy will be determined by MHP program guidelines:

Eligible Properties: Property must be located within a participating community in the Commonwealth of Massachusetts. One, Two, and Three Family owner occupied primary residences only.

Income Limits: Income limits are determined by MHP.

Loan-To-Value: Maximum loan to value of 97% (excluding MHP subsidy provided as a deferred payment loan).

Maximum Purchase Prices: As set by the Massachusetts Housing Partnership.

Income: Ability to repay will be determined by taking into account all eligible income from wages, pensions, interest, dividends, and government sources. Non-taxed income such as Social Security shall be considered at 125% of the actual amount.

Child Support: Alimony: Child support and alimony will be accepted as income provided that proof of receipt is available and the payment can be expected to continue for at least three years. Borrower must provide verification of receipt of payment for the last 12 months (i.e. copies of canceled checks, bank statements with regular deposits, verifications from court). A full divorce decree or separation agreement is required.

Borrowers responsible for child support and/or alimony payments must provide a copy of the full divorce decree or another document evidencing the monthly liability.

Qualifying Ratios: Maximum ratio of 33%/38% for one-family homes. 28/36% for 2-family and 3-family homes Only borrower's share of the second mortgage payments used to calculate debt-to-income ratio in the initial years.

Rental Income: 75% of gross rent deducted directly from PITI. PITI may not exceed 50% of borrower's gross monthly income (excluding rental income).

For three family homes, underwriting for rental income will be as follows: 75% of gross rent deducted directly from PITI. PITI may not exceed 50% of the sum of borrower's gross monthly income plus rent from one of the rental units.

Purchase & Rehab: Sovereign Bank New England agrees to offer buyers the option of a purchase and rehabilitation loan through the SoftSecond program. Maximum loan to value will be 97% of the property's "as completed" value or purchase price plus cost to rehab, whichever is less. The cost of the improvements may not exceed $50,000. The purchase and rehab loan may include fees due to the rehab agent as well as carrying costs for the property during the rehab period.

A cost estimate of work, and specifications for the work from a licensed contractor and from a qualified Rehabilitation Specialist should accompany the application. An appraisal will be ordered by the bank when the application is received; that appraisal will determine the "as completed value".

If the property contains lead paint and additional funds for de-leading are obtained through public sources willing to be in fourth position,

cumulative loan to value may exceed 97%. In no case shall the bank's liability exceed 97% loan to value.

All rehabilitation work must be carried out by licensed contractors. No "sweat equity" is permitted. Rehab Agent must oversee work and sign off on disbursement of funds to contractors.

Gifts: Of the 3% minimum downpayment on single family homes and condominiums, 1.5% must come from the borrower's own funds; the remaining 1.5% may come from (1) a gift from a family member or an unrestricted grant without terms for recapture or repayment from a non-profit organization, (2) a gift or unrestricted grant without terms for recapture or repayment from the FDIC or (3) a secured grant from a non-profit organization or government agency that is not due and payable until the sale or refinance of the property. The remainder can not come from the seller.

Of the 3% minimum downpayment on two and three family homes, 1.5% must come from the borrower's own funds. The remaining 1.5% may come from sources (1) through (3), as outlined above. The remainder can not come from the seller.

Closing costs and prepaid items may be paid from gifts. Gifts are allowed from a family member or a grant or an unsecured loan from a non-profit organization or public entity, so long as the borrower has met the minimum downpayment requirements. The seller of the property may also pay the closing costs. However, contributions by the seller are subject to the following limitations:

In the case of loan-to-value of less than or equal to 90%, contributions are allowed up to 6% of the appraised value or sales price, whichever is less.

In the case of loan-to-value of greater than 90%, contributions are allowed up to 3% of the appraised value or sales price, whichever is less.

The seller may not pay prepaid items.

Closing Costs: As negotiated.

Employment: All borrowers should have two full years of employment activity history for income utilization. There is an emphasis on income stability rather than job stability. It is acceptable as long as a two year history of stable income exists, employment gaps are explained, and the borrower(s) works in a field in which other employment opportunities with similar incomes are readily available.

Self employed: Self employed borrowers must have a two year history in same profession. Income must be verified with two years of personal and/or corporate income tax returns, along with all supporting schedules and Year To Date Profit and Loss Statement and Balance Sheet.

Credit: The most recent 12 months of a borrower's credit history will be reviewed for minor instances of derogatory credit to ascertain that the borrower has a sufficient number of accounts without adverse ratings to support a determination that the overall credit history is an acceptable one. The borrower's credit history must demonstrate a willingness to repay debt. Each evaluation of credit will be reviewed on a case by case basis. A decision will be made at the lender's discretion.

All late payments within the past two years are to be explained. Any excessive or recurring late payments beyond two years may also require explanations.

Credit inquiries that are less than 90 days old and do not appear as open credit on the credit report will require a written explanation from the borrower or creditor.

Outstanding collection accounts must be brought current.
Limited or no credit history can be supported by evidence of rent and/or utility payments.

At least two years must have elapsed since any bankruptcy was discharged. Borrowers must have re-established credit. A satisfactory letter of explanation and a letter of discharge and Schedule of Credits listing all debts is required.

Private Mortgage Insurance: None required.

Pre-Qualification: The bank pre-qualifies applicants and calls MHP, then mails in Registration upon collection of a $25 fee payable to MHP.

Home Buyer Education: The buyer must present evidence that he/she has enrolled in a Homeownership Collaborative- certified home buyer education program. The program must include information about homeowner/landlord responsibilities such as home maintenance, budgeting, tenant selection, and tenant-landlord law. The borrower must receive a graduation certificate before the loan is closed.

Reserves: 2 months PITI (principle, interest, taxes, insurance) is waived.

Escrows: Real estate taxes, hazard insurance, and flood insurance (if applicable) required.

Marketing: The bank agrees to market the SoftSecond Program through all of its mortgage marketing efforts, including, but not limited to, contact and communication with local realtors and information posted and/or distributed at home buyer seminars, neighborhood branches, and local housing fairs. The bank will work with MAHA to develop a coordinated marketing campaign designed to maximize participation of minority households and households with annual incomes below $25,000.

The bank agrees to review its marketing efforts and loan closings in the SoftSecond Program annually with MAHA members and/or staff. If the number of loans closed during any year covered under this agreement is less than the number committed, the bank agrees to carry over the unused allocation and expand its neighborhood based advertising and marketing of the SoftSecond Program during the following year.

Privacy Waiver: Loan applicants will sign and submit to MAHA a privacy waiver. This privacy waiver will give permission to the bank to discuss the customer's credit situation with designated representatives of MAHA. The waiver will also enable the bank to refer borrowers who are unable to make payments due to circumstances beyond their control to MAHA's post-purchase counselor. Upon determination of the nature and extent of the borrower's hardship and analysis of the borrower's financial condition, the bank will work with the borrower and MAHA to attempt to develop a mutually acceptable payment schedule that would provide repayment within the borrower's financial capacity.

Comments: First time home buyer is defined as a person who has not owned a home within the last three years.

Orginations Contact: STEVE POWERS 1·508·620·3275

Bank Contact: TOM KENNEDY 1·617·~~??~~757·3419

Massachusetts Affordable Housing Alliance (MAHA) agrees to the following:

Counseling: MAHA will provide regular five week home buyer counseling sessions and three week homeowner workshops for low to moderate income first time buyers and others. MAHA will hold these sessions provided that adequate resources are available to the organization to do so. The home buyer sessions will include:

Understanding mortgage terms
Working with a realtor
Credit history
Qualifying ratios
Home inspections
Downpayments and closing costs
Landlord Responsibilities

The homeowner workshops will include:

budget counseling
savings programs and tax planning
routine home maintenance
home repairs
grants and low interest loans for weatherization, rehab and repairs
crime and fire safety
homeowners insurance
finding and screening tenants
tenant/landlord issues
lead paint
avoiding default and foreclosure
Boston Building Materials Co-Op
Boston Oil Consumers Alliance

Marketing: MAHA will market the SoftSecond Program through its Home Buyers Union members, home buyer classes, information tables, community meetings, and other events.

Homeowner Services: Through its HomeSafe Resource Center, MAHA will provide one-on-one counseling to program homeowners who find themselves unable to make their mortgage payments on time. MAHA will also provide advice to homeowners who need information about home repair programs, finding and screening tenants, and other issues related to successful homeownership. MAHA will offer these services provided that resources are available to the organization to do so.

MAHA Contacts: Hillary Pizer and Florence Hagins 822-9100

Signed by: Thomas B. Kennedy Florence Hagins

Title SVP Title Assistant Director

Bank Sovereign Mass. Affordable Housing Alliance

Date: February 27, 2004 Date: February 23, 2004

2003 Annual Report • NYSE: SOV

Sovereign Bancorp

"Sovereign's strong and consistent organic growth has been entirely dependent on execution by a top quality team."

– Jay S. Sidhu

Chairman of the Board,
President and Chief Executive Officer

mission

When consumers and businesses think of a World Class financial services provider, they choose Sovereign.

vision

Sovereign is a World Class financial services provider, committed to helping our customers succeed by understanding and anticipating their individual financial needs and providing customized solutions, resulting in each customer having six or more services with Sovereign.

values

World Class Commitment to Team Members
We expect nothing but the best from our Team Members and in return show extreme respect for each Team Member. We encourage open communication and an entrepreneurial spirit, always seeking and implementing ideas and innovations which help Sovereign to excel. Our environment supports personal growth and continuous learning for all Team Members.

World Class Commitment to Customers
We continually strive to build World Class relationships with our customers by providing World Class service through understanding and anticipating our customers' needs and consistently exceeding their expectations. Sovereign customers can count on us to deliver customized solutions, products and services to help them achieve their personal or business goals.

World Class Commitment to Community
Sovereign is a committed, socially responsible corporate citizen, supporting worthwhile community activities and encouraging our Team Members to be actively involved in our communities.

World Class Commitment to Shareholders
Sovereign is a driven World Class financial services provider, continually outperforming the market in terms of earnings growth and total shareholder returns.

Sovereign Bancorp, Inc., ("Sovereign") (NYSE: SOV), headquartered in Philadelphia, Pennsylvania, is the parent company of Sovereign Bank, a $45 billion financial institution with 535 community banking offices, nearly 1,000 ATMs and about 8,300 team members in Connecticut, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania and Rhode Island. In addition to full-service retail banking, Sovereign offers a broad array of financial services and products including business and corporate banking, cash management, capital markets, trust and wealth management and insurance. Sovereign is one of the top 20 largest banking institutions in the United States, pro forma for pending acquisitions.

Corporate Governance

Sovereign has a strong corporate governance culture that is driven by external and internal influences. We are in full compliance with the requirements of the Sarbanes-Oxley Act of 2002 and the listing standards of the New York Stock Exchange (NYSE). In fact, Sovereign has put into place some of the requirements in advance of their deadlines.

The following actions were taken to improve corporate governance:

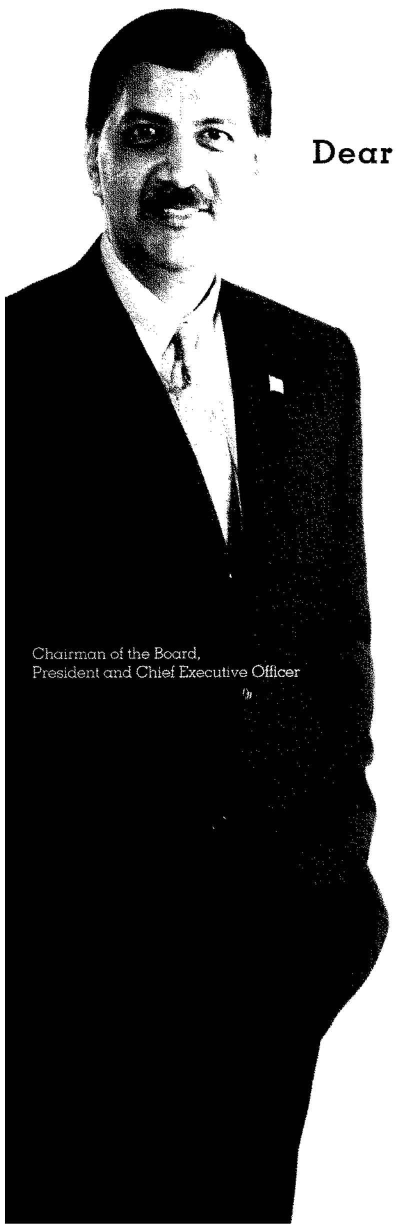
- The Board of Directors put into writing and formalized Sovereign's Corporate Governance Guidelines which Sovereign's Board had historically operated under, and posted those guidelines on Sovereign's web site (www.sovereignbank.com) under Investor Relations in 2002. The guidelines were updated in 2003.
- The Board of Directors, with legal assistance, evaluated the independence of each of its members under the NYSE's listing standards in 2002, 2003 and 2004.
- The Board of Directors, with legal assistance, evaluated the independence of each member of the Audit Committee of the Board under the Sarbanes-Oxley Act and the NYSE's listing standards in 2002, 2003 and 2004.

Since 1988, we have had a written Code of Conduct and Ethics that covers conflicts of interest, breaches of confidentiality, fair dealing, compliance with law and personal investing and trading in Sovereign's common stock.

Since 1995, the Board has maintained an Ethics and Corporate Governance Committee consisting entirely of non-management directors, except for the CEO, who last served on this Committee in 2002.

ELECTRONIC FORM 10-K
The Sovereign Bank 2003 Form 10-K is available in electronic format. To view the 10-K, please visit www.sovereignbank.com and select Investor Relations. At Investor Relations, choose Financial Reports, then SEC Filings.

FORWARD LOOKING STATEMENTS
Certain portions of this Annual Report contain various forward-looking statements. Please refer to page 3 of the Form 10-K for a discussion of the various factors that could adversely affect the future results – causing them to differ materially from those expressed herein.



Chairman of the Board,
President and Chief Executive Officer

Dear Shareholders,

2003 was another very successful year for Sovereign. It also marked the 17th year of Sovereign Bancorp as a publicly traded company. As we look back on those 17 years, a lot has changed. We've grown from 20 banking offices to about 665 (pro forma for pending acquisitions), and we've grown in asset size from about $600 million to about $55 billion pro forma. In 2003 we made $421 million in operating earnings (up 18% from 2002), compared to under $4 million just 17 years ago. When we went public, our market capitalization was only about $12 million. Today, pro forma for the acquisitions, it is about $8.4 billion. These are all big changes.

Our corporate goal, however, has never been to become big just for the sake of being big. So, the question we constantly ask ourselves is, "Are we a better company today than we were yesterday?"

We believe we are. We have invested heavily in our people the past few years, and we are now seeing the benefits of that investment. Today, we believe we have the most talented group of team members in our history, and these dedicated individuals are able to deliver a comprehensive suite of products, services and solutions to satisfy the needs of our consumer and business customers. We believe it is critically important in our business to have the very best team members delivering our bank to the customer. So often, we hear that banks rarely differentiate themselves from their competition, and that "a bank is a bank is a bank."

We're out to change that. Superior customer service *does* make a difference. The bank with the best team members will, over time, deliver the best financial solutions to its customers. We are very focused on having our team members recognize us as one of the best companies to work for in America. We believe that achieving "best company" status will help us attract and retain the best talent, which will give us a long-term sustainable advantage over our competition.

We're making strides every day to become better. And as customers and shareholders, we hope you're seeing the difference. For instance, we have our Red Carpet Customer Service Guarantees, (such as not waiting in line too long at a branch) and we back up those guarantees with cash if we fail to deliver. We've expanded our set of product offerings to include our revolutionary Extreme Checking, sophisticated cash management and capital markets products for business customers,

"Sovereign combines the best of a large bank with a small community bank touch."

and a full array of asset and wealth management services. We've expanded our hours, which include having Sunday hours in many areas. We've broadened our use of technology with a redesigned web site and enhanced our customers' statements through the implementation of check imaging. And our management information systems regularly evaluate the profitability of our customer segments, products and divisions.

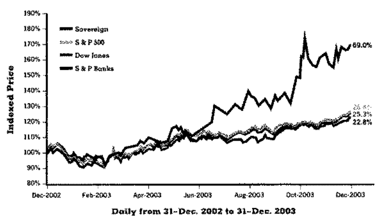
With all the initiatives I just mentioned, we are investing time, effort and money in order to build a stronger foundation for the future. And those investments are already paying off.

Financial Highlights:

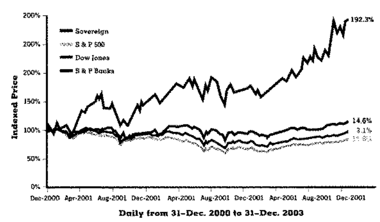
- Increasing our stock price 69% to $23.75 at December 31, 2003.
- Realizing net income of $402 million, up 18% from 2002; earnings per share of $1.38, up 12% from 2002.
- Reporting operating earnings of $421 million, up 18% from 2002; operating earnings per share of $1.45, up 13% from 2002.
- Reporting cash earnings of $482 million, up 13% from 2002; cash earnings per share of $1.66, up 9% from 2002.
- Achieving all-time highs in Consumer and Commercial fee revenues of $209 million and $108 million, respectively.
- Buying back through a tender approximately $300 million of high-cost debt maturing in 2004, accelerating the favorable impact of 2004 debt retirement and improving the quality of the balance sheet.
- Receiving upgrades from Moody's and Fitch at both Sovereign Bank and Sovereign Bancorp; Sovereign Bancorp received an additional upgrade from Moody's in January of 2004.
- Redeeming a $287 million convertible security, which increased our tangible common equity by 13%.

(continued on page V)

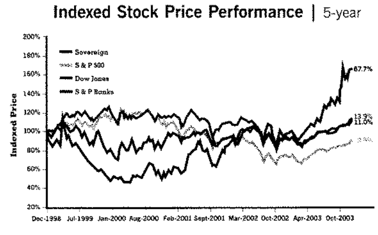
Indexed Stock Price Performance | 1-year



Indexed Stock Price Performance | 3-year



Indexed Stock Price Performance | 5-year



(Letter to Shareholders continued from page IV)

Making it happen.

Among Sovereign's success stories:

- Ranking in the top 1% among companies in the S&P 400 when measured for its corporate governance by Institutional Shareholder Services, the world's leading provider of proxy voting and corporate governance services.
- Being named to *The Forbes Platinum 400*, a prestigious list of 400 companies that the financial magazine considers having the best balance of long-term and short-term financial performance.
- Being identified as one of the most admired financial industry companies in the nation by *Fortune* for the third consecutive year.
- Obtaining a major banking services contract with the state of Massachusetts. We spent months meeting with state officials to discuss their needs, then came up with a customized, innovative approach for managing all of the state's core depository and disbursement activities. We took the business away from our largest competitor in New England.
- Completing in February 2004 the acquisition of First Essex Bancorp, a $1.7 billion bank holding company with headquarters in Andover, Mass. First Essex further fortifies our presence in both Massachusetts and Southern New Hampshire.
- In January of 2004, announcing the acquisition of Seacoast Financial Services Corporation, headquartered in New Bedford, Mass., in an all-stock transaction valued at approximately $1.1 billion. Seacoast is a $5.3 billion institution with 67 community banking offices serving seven counties in southern Massachusetts. Through this acquisition, Sovereign will achieve an excellent market share in each of the five fastest growing counties and the five largest counties in Massachusetts, including the Boston metro market.
- Receiving an "outstanding" CRA rating from our federal regulator for community lending and investment efforts.
- In March of 2004, announcing the acquisition of Waypoint Financial Corp., a $5.4 billion bank holding company with headquarters in Harrisburg, Pa. This transaction extends Sovereign's presence into southcentral Pennsylvania and northern Maryland, improving Sovereign's market share position in Pennsylvania to number five and creating a leading market share position in new and contiguous markets to which Sovereign currently serves.

"After nearly 15 years with the same bank, converting a banking operation as complex as ours was a daunting task. Sovereign partnered with us from day one and helped us through the entire transition process all while saving the Commonwealth and our taxpayers money. I want to thank Sovereign for their professionalism, attention to detail, and overall vision for this project."

– Massachusetts State Treasurer and Receiver General Timothy P. Cahill on awarding the state contract to Sovereign Bank.

"You can not be the best, unless you are brutally honest about your self assessment."

Banking results.

Over the past year, we achieved outstanding results in both Commercial and Consumer Banking. In addition to securing the contract with the Commonwealth of Massachusetts, Sovereign continued to build relationships with thousands of other institutions and businesses.

Other accomplishments in Commercial Banking included:

- Building a very experienced team of hundreds of relationship managers in all our markets, helping position Sovereign as one of the best banks for small and medium size businesses.
- Increasing commercial loans outstanding by about 7% in a period of weak economic activity.
- Initiating the start-up of Interactive Reporting and Initiation Services (IRIS). IRIS is an Internet-based cash management program that offers the very latest in web-based information reporting and transaction initiation technology.
- Generating record levels of Commercial Banking fees and Capital Markets revenue, representing combined growth of 23% over 2002 levels.

Our accomplishments in Consumer Banking included:

- Realizing core deposit growth of $1.5 billion, or 8%.
- Expanding Red Carpet Service℠, a program unique to the industry in our region. Through Red Carpet Service, we offer several guarantees and if we fail to fulfill them, our customers receive $5. In return we receive feedback that helps us become a better bank.
- Generating record levels of Consumer Banking deposit and loan fees, representing 16% growth over 2002 levels.
- Crossing the 300,000 mark of Net Banking customers.
- Exceeding our goal of 5.2 retail accounts and services per household.

(continued on page VII)

Our Assessment

Strengths:

Absolute clarity about vision, mission, values and strategy ■ Strong and cohesive leadership team with extensive team member development programs ■ **Exceptional franchise in terms of market share and demographics** ■ Alignment of goals with reward systems and creation of shareholder value ■ **Strategically compelling footprint** ■ Red Carpet Service Guarantees differentiate Sovereign ■ **Large, stable and low-cost core deposit base** ■ Highly diversified and granular loan portfolio ■ **Accelerating fee-based revenues and cross-selling metrics** ■ Very strong internal generation of equity

Weaknesses:

Holding company still has over $500 million of high cost debt ■ Cross-sale statistics are below six services per relationship ■ **Bank does not possess desired market share in some geographic markets** ■ Asset quality is currently not as strong as we desire ■ **Efficiency ratio is not yet in the 40's**

Opportunities:

Retire all expensive debt by 2006 ■ Excellent environment to gain greater penetration into existing customer base ■ **Competitive landscape and recent mergers and acquisitions in our markets provide enormous opportunities to attract new customers** ■ Increase revenues at twice the rate of expenses ■ **Numerous suitable, fill-in acquisition opportunities** ■ Opportunities to improve Return on Assets and Return on Equity ■ **Opportunities exist to buy back stock in the future**

Threats:

Competitive landscape is becoming more fierce ■ Regulatory environment may become more stringent, limiting growth ■ **Normal integration and execution risks exist at the company**

(Letter to Shareholders continued from page VI)

- Introducing a new student checking product that led to the opening of more than 27,000 accounts.
- Experiencing record level mortgage banking activity – over $5 billion in originations, $50 million in revenues.
- Introducing a redesigned Internet web site that provides for more functionality and is easier to navigate. This new site is among the best in the industry.
- Realizing a record level of consumer loans generated of $4.5 billion.
- Increasing consumer loans outstanding by 18%.

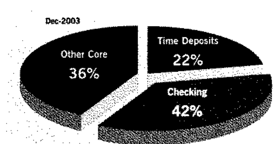
Critical Success Factors

Since 1987, Sovereign has continued to manage its business around four critical success factors. Here's how we did in 2003, as compared to prior years:

Superior Asset Quality
In 2003 NPLs decreased 14%, while our loan portfolio increased $3 billion. Our goal is to reduce our annualized NCOs to 40 basis points or less during the mid to latter part of 2004.

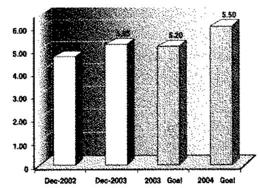
	12/01	12/02	12/03
NPAs/Assets	0.69%	0.65%	0.51%
NPLs/Loans	1.11%	1.00%	0.76%
NCOs/Avg. Loans	0.43%	0.58%	0.55%

Superior Interest Rate Risk Management
Net interest income volatility is minimized by the strong organic growth in our balance sheet. Our large core deposit portfolio is a very effective hedge against rising interest rates.

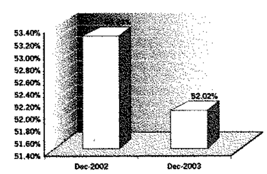


12/03 Deposits – $27.3 Billion
12/03 Cost of Funds – 1.00%

Strong Sales and Service Culture
We exceeded our goal of 5.2 retail accounts and services per household in 2003. Our 2004 goal is 5.5 retail accounts and services per household.



Productivity and Expense Control
We reduced our efficiency ratio by over 100 basis points in 2003. Our goal is to reduce it to under 50% in the next year or two.



RECONCILIATION OF CASH AND OPERATING EARNINGS TO GAAP EARNINGS

Non-GAAP Financial Measures
This report contains financial information determined by methods other than in accordance with U.S. Generally Accepted Accounting Principles ("GAAP"). Sovereign's management uses the non-GAAP measures of Operating Earnings and Cash Earnings, and the related per share amounts, in their analysis of the company's performance. These measures, as used by Sovereign, adjust net income determined in accordance with GAAP to exclude the effects of special items, including significant gains or losses that are unusual in nature or are associated with acquiring and integrating businesses, and certain non-cash charges. Operating earnings represent net income adjusted for the after-tax effect effects of merger-related and integration charges and the loss on early extinguishment of debt. Cash earnings are operating earnings excluding the after-tax effect of amortization of intangible assets and stock-based compensation expense associated with stock options, restricted stock, bonus deferral plans and ESOP awards. Since certain of these items and their impact on Sovereign's performance are difficult to predict, management believes presentations of financial measures excluding the impact of these items provide useful supplemental information in evaluating the operating results of Sovereign's core businesses. These disclosures should not be viewed as a substitute for net income determined in accordance with GAAP, nor are they necessarily comparable to non-GAAP performance measures that may be presented by other companies.

YEAR ENDED DECEMBER 31,	Total dollars		Per Share	
	2003	2002	2003	2002
Net income as reported	$ 401,851	$ 341,985	$ 1.38	$ 1.23
Main Street Bancorp acquisition:				
Net merger related and integration costs	—	10,316	—	0.04
Provision for loan loss	—	3,900	—	0.01
Loss on debt extinguishment	18,838	—	0.07	—
Operating earnings	420,689	356,201	1.45	1.28
Amortization of intangibles	50,100	54,121	0.17	0.19
Stock based compensation	10,819	14,953	0.04	0.05
Cash earnings	$ 481,608	$ 425,275	$ 1.66	$ 1.52
Weighted average diluted shares			290,477	279,039

Small community bank service.

Our small bank style continues to include treating customers as individuals, outstanding customer service continues to be the hallmark of our banking philosophy as witnessed by our localized decision making, active involvement in the community and Red Carpet Customer Service program.

Our commitment to leadership development.

Outstanding customer service goes hand in hand with what we believe are the critical elements for creating a highly successful company. We strive to hire and retain the best people who have a passion for execution and possess absolute clarity about vision, mission, values and strategy as spelled out at the beginning of this report.

Superior execution is directly dependent upon superior leadership. We maintain this level of execution by giving our leaders a clear model of expectations and staying results-oriented. We stress leadership development through ongoing emphasis on improving business and emotional intelligence based human skills while possessing a passion for continuous improvement.

We also expect Sovereign leaders to be masters of internal communications by keeping their team members involved and informed in addition to creating an environment of mutual trust, respect and openness. Our leaders also must be very aware of their external environment – they need to know who our customers are and what they need from us, who we are competing against, how the regulatory and economic environment impacts us and what strategies will be most effective in winning and retaining customer share and profitability.

Our commitment to the community.

In 2003, Sovereign Bank was a significant player in community reinvestment in markets where we have a principal banking presence. We exceeded our planned lending and investment goals for the year. Over the next three years, we plan to invest another $4.5 billion in underserved communities throughout our franchise. That's our responsibility.

In addition, Sovereign team members dedicated more than 32,000 hours of volunteer time for a variety of causes and activities throughout the bank's footprint. More than 740 organizations benefited from our team members' desire to give of their time and talent. In addition, over 500 community organizations received more than $3 million through the Sovereign Bank Foundation.

(continued on page IX)

Our goals.

What we have accomplished in 2003 gives us even more momentum to outperform our competitors in 2004 and beyond. We will continue to strive for:

- Double-digit average annual growth in earnings per share, seeking a minimum of $1.63 per share in operating earnings for 2004, excluding merger integration charges of approximately $.15 to $.17.
- Significant progress in our journey from "Good to Great" in all areas of the bank.
- Further improvement upon our Red Carpet Service guarantees.
- Significant improvement in our asset quality.
- Positioning our company for improved profitability as interest rates rise.

Strategy. With clear purpose and direction.

There is nothing complicated about our strategy for moving forward. We are clear about our strategy, as well as our values, mission and goals. And as we execute, we will remain committed to our critical success factors of:

- Superior loan quality.
- Superior risk management.
- Strong sales and service culture that aligns team member performance with a recognition and reward systems.
- High level of productivity through revenue growth and efficient expense control.

We will continue to take advantage of acquisition opportunities that supplement our organic growth and add value to our shareholders.

We believe we are off to a good start in 2004, especially with First Essex Bancorp joining the Sovereign family and the announced acquisitions of Seacoast Financial Services and Waypoint Financial Corp. We believe we are poised to deliver above average long-term returns to our shareholders. We believe we have the elements to be one of the best companies to work for in our country. We believe we have dedicated and talented team members and Board of Directors to take on the challenges that await us.

We feel honored that you, our shareholders, have placed your confidence in Sovereign, and we will work diligently to maintain that confidence in the years to come.

Jay S. Sidhu
Chairman of the Board,
President and Chief Executive Officer

Officers and Boards of Directors

Sovereign Bancorp, Inc., Board of Directors

P. Michael Ehlerman
Chairman
Yuasa Battery, Inc.

Brian Hard
President,
Penske Truck Leasing

Andrew C. Hove, Jr.
Former Vice Chairman and
Chairman, Federal Deposit
Insurance Corporation

Daniel K. Rothermel
President
Cumru Associates, Inc.

Jay S. Sidhu
Chairman, President and
Chief Executive Officer,
Sovereign Bancorp, Inc. and
Sovereign Bank

Cameron C. Troilo, Sr.
President, Cameron C.
Troilo, Inc.

Sovereign Bancorp, Inc.,Officers

Jay S. Sidhu
Chairman, President and
Chief Executive Officer

Thomas R. Brugger
Treasurer

Joseph P. Campanelli
Vice Chairman

Larry K. Davis, CPA
Controller

James D. Hogan, CPA
Chief Financial Officer

Dennis S. Marlo, CPA
Chief Risk Management Officer

Lawrence E. McAlee, Jr., CPA
Chief Accounting Officer

Mark R. McCollom, CPA
Managing Director of Corporate
Planning

David A. Silverman, Esq.
Senior Vice President,
General Counsel and Secretary

Lawrence M. Thompson, Jr., Esq.
Vice Chairman and
Chief Administrative Officer

Sovereign Bank, Board of Directors

John M. Arnold
Chairman,
Petroleum Products Corp.

P. Michael Ehlerman
Chairman
Yuasa Battery, Inc.

Albert L. Evans, Jr.
President and
Chief Executive Officer,
Evans Delivery Co., Inc.

Brian Hard
President,
Penske Truck Leasing

Andrew C. Hove, Jr.
Former Vice Chairman
and Chairman, Federal Deposit
Insurance Corporation

Alfred B. Mast
Retired Owner and President,
Mast & Moyer, Inc.

M. Christine Murphy
Chairman and
Chief Executive Officer,
S. Zitner Co.

Dr. Constantine Papadakis
President,
Drexel University

George W. Reinhard
Chairman,
Lester Fellows, Co.

Daniel K. Rothermel
President,
Cumru Associates, Inc.

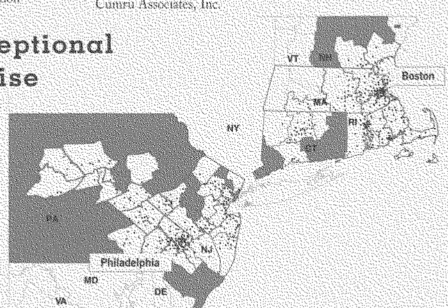
Elizabeth B. Rothermel
Homemaker and
Community Leader

Robert A. Sadler
Retired President,
CadmusMack

Jay S. Sidhu
Chairman, President and Chief
Executive Officer,
Sovereign Bank and Sovereign
Bancorp, Inc.

Cameron C. Troilo, Sr.
President,
Cameron C. Troilo, Inc.

An Exceptional Franchise



Sovereign Bank Office of the Chairman

Jay S. Sidhu
Chairman, President and
Chief Executive Officer

Joseph P. Campanelli
President and
Chief Operating Officer of
Sovereign Bank
New England Division

John P. Hamill
Chairman and
Chief Executive Officer of
Sovereign Bank
New England Division

James D. Hogan, CPA
Chief Financial Officer of
Sovereign Bancorp, Inc.

Dennis S. Marlo, CPA
Chief Risk Management
Officer

Lawrence M. Thompson, Jr., Esq.
Sovereign Bank
Chief Operating Officer and
President of Consumer
Banking Division

James J. Lynch
Chairman and Chief Executive
Officer of Sovereign Bank
Mid-Atlantic Division

NAACP
NEW ENGLAND AREA CONFERENCE
Post Office Box 128 West Roxbury, MA 02132
(617) 325-7580 Facsimile (617) 325-7666

TESTIMONY BEFORE THE

UNITED STATES HOUSE OF REPRESENTATIVES

COMMITTEE ON FINANCIAL SERVICES

ON THE MATTER OF

"BANKS, MERGERS, AND THE AFFECTED COMMUNITIES"

BOSTON, MASSACHUSETTS

PRESENTED BY JUAN M. COFIELD, PRESIDENT
NEW ENGLAND AREA CONFERENCE OF THE NAACP

DECEMBER 14, 2004

INTRODUCTION

I am Juan Cofield, President of the New England Area Conference of the NAACP ("NEAC"). NEAC is the coordinating/governing body for the Branches of the NAACP in the states of Rhode Island, Massachusetts, New Hampshire, Maine and Vermont. I want to express my sincere appreciation to Chairman Bachus, Ranking Minority Member Frank, and the other Committee Members for conducting this hearing here today. This hearing, in and of itself, has already had an impact on the delivery of banking services, in this community.

COMMUNITY ADVISORY COMMITTEE

NEAC is part of a loose coalition of non-profit organizations called the Community Advisory Committee ("CAC") formed to advocate for people of color and low and moderate income people in pursuit of improved banking services. In general, my testimony is supported by the CAC. More specifically, I wish to indicate that the general thrust of my testimony has the support of the Lawyers Committee for Civil Rights Under Law of the Boston Bar Association and the Fair Housing Center of Greater Boston.

NAACP

To put my testimony in context, I would like to provide for you the vision and mission of the NAACP. The vision of the NAACP is to ensure a society in which all individuals have equal rights and there is no racial hatred or racial discrimination. The mission of the NAACP is to ensure the political, educational, social and economic equality of all persons and to eliminate racial hatred and racial discrimination.

BANK OF AMERICA

NEAC and the CAC requested two commitments from Bank of America which relate to the Bank's employment (at all levels) of people of color and women, and the procurement of goods and services from businesses owned by people of color and women. Statistical data will clearly show that the percentage of people of color and women employed by Bank of America nationally and in Massachusetts is not matched by these categories of citizen's percentage of the population. An even worse disparity is reflected regarding the percentage of goods and services purchased from businesses owned by people of color and women. NEAC and the coalition have requested that Bank of America set a goal and develop a plan such that the Bank's employment (at all levels, including senior and executive management) of people of color reflect the percentage of people of color in the general population in the Commonwealth of Massachusetts. A similar request has been made regarding the Bank's procurement of goods and services.

These disparities are certainly not unique to Massachusetts, and Bank of America alone, did not create the disparity in Massachusetts or in our great nation. It is a problem of our American society and economy. However, Bank of America must be part of the solution. The lack of employment and business opportunities has attributed to economic destabilization in communities with a dominate population of people of color.

The Community Reinvestment Act begins by reciting Congress' three findings in passing the law. First, banks are required to serve the "convenience and needs" of the communities in which they are chartered to serve. Economic stabilization is a dire need in many communities of color. Adequate employment and business opportunities will greatly attribute to stabilizing these communities. Since Bank of America, in its normal course of business, provides employment opportunities and opportunities for businesses to sell the Bank goods and services, NEAC and the coalition maintain that the Bank has an affirmative obligation, under the CRA, to provide

these same opportunities, on an equal basis, to communities with dominate populations of people of color.

I aver that further evidence of Bank of America's affirmative obligation to provide employment and business opportunities is found in the Investment Test of CRA regulations for large banks. The investment test evaluates the bank's community development investments. Of the four measures of a bank's investment, two are directly relevant: the bank's responsiveness to community development needs, and the degree to which investments are not provided by other private investors.

Bank of America can present no reasonable argument, that providing equal access to job and business opportunities in destabilized communities with dominate populations of people of color, is not addressing a community need. Further, these investments are not being sufficiently provided by other private investors. NEAC and the coalition have sought a reasonable investment plan of employment and business opportunities from the Bank, to address these stark community needs. At this point, Bank of America has not presented NEAC and the coalition, such a plan. Up until Thursday morning, December 9th, discussions with the Bank had been quite disappointing, to say the least. But on Thursday morning, I had a lengthy discussion with two senior Bank officials, Doug Woodruff, President of CD Banking, Bank of America and William Fenton, Senior Vice President of Bank of America. I am more hopeful today, as a result of that conversation, than I had been prior to last Thursday.

The Bank's attitude has been that it is developing a national plan and that Massachusetts will fit within that national plan. It is a "one size fits all" approach. However, this approach, in my humble and lay opinion, is not what the CRA was intended to require. CRA is the acronym for

the Community Reinvestment Act and not the Country Reinvestment Act. Any plan developed by the Bank should be specific and tailored to the needs of the communities which each of you, our most honorable Congressmen represent, if the Bank is providing banking services in your districts.

MAJOR MASSACHUSETTS COMPETITORS

By contrast, I would like to point out what Bank of Americas' two largest competitors in Massachusetts are doing. Sovereign Bank New England and Citizens Bank Massachusetts have made a commitment and are developing plans for their respective bank's employment, at all levels, and procurement programs of goods and services, which reflect the diversity of the Commonwealth of Massachusetts. These banks did not simply say "come in and let us show you what we plan to do." These commitments were the result of an openness of attitude, a willingness to provide the best service to the communities which they serve, and an extended period of negotiations. I know that each of these banks is proud of their commitments. They feel that implementation of the commitments will enhance their ability to serve the community. Additionally, they believe that implementation of these commitments will help grow their revenue and profits.

SOVEREIGN BANK NEW ENGLAND

In particular, and because you are reviewing Sovereign Bank's acquisition of Seacoast Banks, I want to take this opportunity to publicly state, on behalf of the New England Area Conference of the NAACP and the other organizations whose views are reflected in this testimony, that Sovereign Bank New England has distinguished itself in developing a relationship with the Community Advisory Committee. The Bank recently signed a comprehensive agreement with the CAC which includes definitive language on workforce and procurement diversity to reflect

the ethnic and gender diversity of the Commonwealth of Massachusetts. The Bank, I believe, is a prime example of a bank attempting to serve the totality of needs of the community. The leadership of Sovereign Bank New England "gets it!"

SUFFICIENCY OF CURRENT LAWS

I do urge that you, the Financial Services Committee of the House of Representatives, move forward to strengthen the CRA in three important aspects. One aspect is to ensure that major national banks develop and implement plans that truly serve the totality of needs of the communities they serve. The communities that you represent will be the beneficiaries of such legislation.

Second, I would ask that you take action on is to provide for specific language in the CRA to address the issue of ethnic and gender diversity. The issue of race continues as a serious problem in our nation. It is not too much to ask that a bank, in its normal course of business, be part of the solution, and not part of the problem. The interest of our nation will certainly be enhanced.

Exactly eleven months ago today, I addressed the Federal Reserve Bank of Boston at its public hearing regarding the acquisition of Fleet/Boston by Bank of America. At that hearing, I urged the Federal Reserve to defer a decision on the Bank of America's application for approval of the acquisition until such time that a definitive plan was presented addressing the full range of community needs. I continue to believe that such action would have been the proper decision of the Federal Reserve Bank Third, I request that you strengthen the language of the CRA to provide for such plan, prospectively.

CLOSING

I am honored, and again, I do appreciate the opportunity to address the Committee on this important aspect of your work.

Testimony of

Anne Finucane
President, Northeast
Bank of America Corporation

Before the

United States House of Representatives
Committee on Financial Services

On the Matter of

"Banks, Mergers, and the Affected Communities"

10 a.m., December 14, 2004

Federal Reserve Bank of Boston
600 Atlantic Avenue
Boston, Massachusetts

Good morning Chairman Bachus, Ranking Member Frank, and members of the Committee on Financial Services. My name is Anne Finucane. I am the President, Northeast, of Bank of America. Ken Lewis, our President and CEO, has asked me to express his regrets that he is unable to attend today because of a previously scheduled Board of Directors meeting and has asked me to testify on his behalf and on behalf of the Company.

Bank of America is one of the world's largest financial institutions, serving individual consumers, small businesses and large corporations with a full range of banking, investing, asset management and other financial and risk-management products and services. The company serves 33 million consumers through 5,800 retail banking offices, more than 16,500 ATMs and online banking, with more than 11 million active users. Bank of America is the #1 Small Business Administration lender in the United States.

Today the Committee has asked me to testify on three matters:

- The effect of recent bank mergers, including this year's Fleet – Bank of America merger, on employment;
- Commitments made during the merger process; and
- The adequacy of current banking laws to protect the interests of the communities, both during the merger process and afterwards.

Employment

Almost two decades ago, the leadership of our company correctly concluded that there would be a revolution in banking which would lead to consolidation in the industry. We now provide banking services more efficiently, more accurately, than we ever have before.

As two banks – or for that matter, any two companies – are combined, there are often duplications in positions that must be eliminated to ensure the new entity remains efficient. Some degree of job reductions, although unfortunate, is necessary to ensure that the new bank remains profitable and able to deliver competitive banking services to its customers.

Yet a merger's impact on jobs varies greatly from transaction to transaction. Typically, in an "in-market" merger, the merging banks consolidate not only headquarters and back-office operations, but also branches, or "banking centers." In an "out-of-market" merger, such as ours, banking center jobs are largely unaffected by an out-of-market merger because, without a banking center overlap, there is no need to close banking centers and incur widespread layoffs of customer facing associates.

That was the case in our merger. Fleet and Bank of America had virtually no banking center overlaps and only two banking centers – both in Florida – were closed because of the merger. We did have some adjustment to banking center employment in August as we introduced Bank of America's banking center staffing model in the Northeast. While there were some layoffs, we

also were hiring to ensure our banking centers are staffed appropriately to serve customers at peak periods. This change in employment was more due to the adoption of a new staffing model to achieve strong customer service levels, rather than from the merger of the two institutions.

There have been layoffs for associates across the Company since the merger in April. That said, we've taken significant steps to minimize the employment impact on the area. At the time of the merger, there were roughly 17,900 of our associates located in New England. The company agreed to maintain current levels in New England, and we've taken a number of actions to ensure that we honor that agreement.

As of October 31, 2004, there were 15,000 full-time equivalent associates in New England, representing a reduction of 2,900. We recently have announced plans to add 400 full-time associates in our Wealth Investment Management headquarters in Boston and 700 FTEs in Rhode Island, for a total of 1,100 FTEs in New England. That puts our New England full-time equivalent total at 16,100 in 2005, for a net reduction of 1,800 FTEs since the time of the merger.

We will meet our commitments, relying on the same formula we have used to this point. That includes adding full-time equivalent positions in fast-growing businesses such as Wealth and Investment Management and continuing to rely on our Merger-Transition Office to identify additional opportunities to bring more positions to the region, similar to the ones already announced.

Last, we've helped to create and sustain employment in the New England region by hiring New England companies. Recent examples include our expanded relationships with Fidelity and Staples. These changes not only will have real and meaningful employment impact to this area, but also will fuel the regional economy.

We look forward to identifying additional opportunities through our dialog with community leaders. And, we are actively working to identify additional opportunities that will enable us to maintain the 17,900 level in 2006.

But we're not only working to preserve the number of jobs, we're providing some exciting benefits that are new to our associates in the Northeast, which are industry-leading and designed to support both professional development as well as balance in managing work/life issues.

In focus groups, many Fleet associates told us they believe career and professional development opportunities will be better at Bank of America. This expectation stems from Bank of America's multi-phased talent planning and pay-for-performance processes that are new to Fleet associates. These processes are designed to help every associate grow professionally and reach his or her full potential.

Bank of America long has been celebrated for its commitment to work/life balance for its associates. For the past 16 years, we have been on *Working Mother* magazine's list of the top 100 companies for working mothers. For instance, our Child Care Plus program, which will be available in April to associates in the region, reimburses eligible associates up to $175 per month per child for childcare costs.

Eligible associates have a base annual salary of $34,000 or less and a total annual family income of $60,000 or less. We offer all associates a Dependent Care Account, where they can pay up to $5,000 of dependent care costs through pre-tax, payroll deduction. From adoption reimbursement assistance to family resource and referral services, our work/life programs are recognized as world-class among businesses.

We want to help our associates live the American dream. Our Associate Home Ownership Program helps offset expenses associated with buying a house. With a Bank of America mortgage, an associate can receive up to $5,000 in the form of an unsecured loan. All they have to pay is the interest – Bank of America pays the principal as long as the associate stays with the company. Within five years, the loan is 100% forgiven. Already, 319 Fleet associates have taken advantage of the Associate Home Ownership Program since it was first offered to them in May 2004.

In 2005, Bank of America will launch "Rewarding Success" to provide a cash award to associates for their contributions to our company's performance. Rewarding Success will give most associates who earn less than $100,000 a cash bonus when the company meets or exceeds certain financial targets. The majority of our associates around the world will be eligible to participate in this new opportunity to further share in the successes of our company.

We support our associates as they extend their commitment to serving our customers to service in their communities. Bank of America encourages and allows each associate to volunteer two hours per week during the work day. While the former Fleet program offered associates 20 hours per year for volunteer efforts, the Bank of America program allows a full-time associate to volunteer more than 100 hours per year. Through Team Bank of America, our associates have devoted more than 650,000 volunteer hours nationally to more than 3,500 non-profit organizations in one year's time. More than 100,000 associates participate in our Diversity, Environmental and Volunteer networks.

In 2004, more than 1,500 associates and family members across Massachusetts contributed in excess of 7,000 hours to community activities, such as sorting food and clothing at community food banks, in-class teaching and job shadowing with Junior Achievement, numerous walk-a-thons throughout the state, and other volunteer events. Volunteers work at 15 different non-profit agencies on a monthly basis, year round.

To help those most in need, many of our associates volunteer monthly at the Greater Boston Food Bank sorting non-perishable goods for local pantries and soup kitchens. Additionally, about 150 associate volunteers from Boston locations have annually covered all shifts for a week.

Commitments

Bank of America is new to New England, but we have a proven track record of demonstrating and fulfilling our dedication – individually and collectively – to our communities. We are recognized nationally and within thousands of communities throughout our franchise as the leader in community and economic development and corporate citizenship.

Community Development

From time to time, we've announced pledges, particularly in the area of community development. We typically achieve far greater results. By any measure, the goals set by Bank of America have been followed with a track record of performance.

- In 1991, during the C&S/Sovran and NCNB merger that created NationsBank, the Company pledged $10 billion in community development loans over a 10-year period. Within only four years, we exceeded that pledge, generating $13.4 billion in community development loans. By five years, we nearly *doubled* our pledged production, generating $19.9 billion in community development loans. By the sixth year, we had nearly *tripled* our goal, with $28 billion in community development.

- In 1992, BankAmerica Corporation, in connection with its acquisition of Security Pacific, pledged $12 billion in community development over 10 years. That goal was surpassed in four and a half years. By 1998, BankAmerica Corporation set a dramatically higher goal of $140 billion over 10 years.

- A year later, with the merger of NationsBank and BankAmerica, we decided to set the standard even higher. We more than doubled the existing goal with a pledge of $350 billion in community development over 10 years. In five short years, we are again well ahead of schedule, at more than $230 billion in results.

- Fleet has a comparable track record of community success. In 1999, during the Fleet – BankBoston merger, $14.6 billion was pledged to its communities, and having surpassed $25 billion, we're on track to complete this at year's end with a projection of nearly doubling the pledge.

- With the merger of these two industry leaders, we've now pledged $750 billion to community development over 10 years, beginning in 2005. We've targeted a portion of that -- $100 billion – for here in the Northeast.

We haven't made community pledges in every acquisition we've done. But in some merger transactions, these types of targets serve an important purpose, not only to the community, but also for our associates and our shareholders. These pledges become aspirational goals that contribute to associate pride and maintain a community focus and involvement that increases customer satisfaction and, in the long term, overall profitability.

In the area of community development, we operate with three basic principles. First, we are relationship-builders. We create alliances with community groups everywhere we do business. Several of our alliance partners are here today. Second, we set national goals and then deliver on them locally by relying on local leaders and community partners to make the greatest impact possible. Third, we provide reports on our results.

The key to our success in building a record of results has been our strategy to create alliances with neighborhood organizations. By listening and learning about ways to have maximum positive impact in our communities, we have done exactly that. But investment in neighborhoods is about more than dollars. It requires leadership and advocacy. In this area, Bank of America stands second to none. We have actively led efforts in support of the CRA, funding a strong and consistent SBA, creating CDFI funding programs, permanently extending low-income housing tax credits, and creating the New Market tax credit. We know the importance of creativity and leadership. And, we apply our intensity toward creating models that are cutting edge.

Already we have shown our commitment to New England. In May 2004, Bank of America committed $406 million in loan financing and $18 million in grants for the Massachusetts Housing Partnership to help develop more housing for low- and moderate-income families in Boston and throughout the Commonwealth.

We provided $200 million in loan financing over four years for community development in Boston, with a significant portion directed to the city's affordable housing strategy. We continue to be a member of the Federal Home Loan Bank of Boston, and we'll make 3,000 mortgage loans under the Massachusetts Soft Second Program over the next 10 years.

From the date of our merger agreement in October 2003 through this past November, we have made 22 Community Development real estate loans totaling $134.7 million in Massachusetts. These projects will create 1,349 units of much needed affordable housing. Some examples of these projects include:

- The YMCA's Claredon House for single occupancy housing
- Morville House, with 179 units for seniors, and
- Egleston Crossing, with 22 of the 64 units in this project reserved for the homeless.

A Boston landmark serves as another great example. We've committed $8.6 million in construction financing for the renovation of the Dartmouth Hotel to provide 65 new units of affordable rental housing in the city. The developer, Nuestra Communidad Development Corporation, will offer 45 of the units at a subsidized rate for low-income residents. In addition to studio and single-bedroom units, the renovation will include artists' lofts, bringing much-needed quality affordable rental space to the Roxbury community of Boston.

We have a strong record track record once we enter a new market:

- In Los Angeles, total community development lending and investment was $2.7 billion in 1999. By 2003, it had increased to more than $7.2 billion.
- In San Francisco, we've gone from $1.7 billion in community development lending in 1999 to more than $3.2 billion in 2003

- In Jacksonville, Florida - the 1999 total was $269 million and that increased to more than $1.4 billion in 2003. This represented more than a five-fold increase.
- In Phoenix, we've doubled the amount from 1999 to 2003 with a 2003 total of $1.2 billion.

These are just a few examples to illustrate that we are serious about delivering results. We say what we'll do, and we'll do what we say. Our business model is proven and results driven. It differentiates us from the competition and makes a difference in the market.

Employment

Our $750 billion community development goal is not the only pledge we announced during the merger. We announced our intention to maintain employment levels in New England, which I discussed earlier. This was a new form of pledge for Bank of America; we typically have not made employment related pledges in connection with our past mergers. Yet maintenance of New England employment was critical to the management of the combined company, and we intend to put the same effort behind our employment pledge as we have in our prior community development pledges.

Philanthropy

We also announced a goal for philanthropy. Beginning in 2005 and over the next 10 years, we'll reach a total of $1.5 billion, making us one of the most generous corporations in America. Our goal represents a significant increase in giving over prior years. Bank of America and Fleet collectively donated $96 million in 2003 and $108 million this year for charitable purposes. Our 2004 Massachusetts charitable efforts include:

- $50,000 to YouthBuild Boston's Core Construction Training Program that provides construction training and educational skill-building opportunities to primarily African-American, Cape Verdean, and Latino males, ages 18-24, in the inner city.
- $60,000 to Boston Main Streets program. This initiative is the first urban, multi-district Main Streets program in the nation. Boston Main Streets provides funding and technical assistance to 19 neighborhood-based Main Streets districts throughout Boston to allow merchants and community residents to better compete in today's market and revitalize their districts.
- $125,000 to Project Discovery Initiative to make arts more accessible to people of all ages, races, income and abilities.
- $1 million to the Children's Hospital in Boston to support KIDVESTMENT: partnership for healthy kids.
- $1 million to City Year for the Young Heroes Program.

Supplier Diversity

We also announced our plans to increase supplier diversity. Helping diverse businesses grow through contracting opportunities allows Bank of America to grow at the same time. This is just another way that we actively work to strengthen communities.

This is not a new goal for Bank of America. We formalized our supplier diversity and development program in 1990 to ensure diverse businesses are afforded the greatest possible opportunity to participate in our company's competitive contracting and procurement processes. Our original long-term goal was 10%. In 1999, we decided to raise the bar and now have an aggressive long-term goal of 15% of the overall amount for goods and services that allow for supplier selection, to be achieved by 2009.

For 2003, the year prior to the Fleet merger, Bank of America's annual goal was set at 8.5% in diverse spending of our $6.6 billion in sourceable spend total. Actual performance for 2003 exceeded that goal, with 9.3% (or $625 million) in diverse spending. At that time, Bank of America already was spending more than $100 million, and double that of Fleet, in the Northeast. With the merger, our overall sourceable spending increased to approximately $9.1 billion. The combination with Fleet had the effect of diluting Bank of America's diverse spending ratio to 7%, even though actual dollars devoted to minority suppliers did not decrease.

Despite this, we have set a goal of 9% for 2005. This represents a significant increase in actual dollars to diverse businesses.

Our objective to reach 15% in 2009 is unchanged. We remain steadfastly dedicated to increasing the amount of quality products and services we obtain directly from diverse businesses and that our larger suppliers also obtain from diverse suppliers. For instance, all contracts with domestic Bank of America suppliers above $500,000 must include supplier diversity and development language and expectations. For domestic contracts less than or equal to $500,000, documentation must be provided to show diverse supplier participation in the proposal request and bid process.

On December 9, 2004, Bank of America was named the Top Corporation for Multicultural Business Opportunities of 2004 by more than 350,000 diversity business owners. The 5th annual ranking was produced by Connecticut-based DiversityBusiness.com, the nation's leading multicultural B2B online portal. The voting business owners based their decisions on such factors as the volume, consistency and quality of business opportunities granted to women and minority-owned companies.

Adequacy of Current Law

Let me turn to the merger approval process. In connection with the Fleet – Bank of America merger, we filed applications or notices with four federal agencies, more than 30 state agencies, several self-regulatory organizations, and more than two dozen foreign countries. We participated in four public meetings in three different states involving more than 200 witnesses, and responded to nearly 400 comment letters. The approval process spanned more than five months, with the last approval received the day before our scheduled merger date. It was certainly the most exhaustively reviewed transaction in which we have participated.

In our opinion there are adequate measures in place to ensure that a bank honors its public pledges, without amendment to the Bank Holding Company Act or the Community Reinvestment Act. For example, a bank that fails to honor public commitments will generate *significant* adverse public comment, resulting in considerable delay in the merger approval process, if not outright disapproval. The market also acts as a very effective policeman in this regard. Bank management that routinely fails to honor commitments will rapidly lose credibility with customers, prospective customers, associates, media, business partners, regulatory agencies and officials, and will suffer. Simply put, failing to honor public commitments is not only a breach of public trust, it is bad business.

The Merger

We believe that the Fleet – Bank of America merger has been tremendously beneficial for our customers, associates, and our shareholders.

Retail Customers

First, we are all extremely pleased by the highly favorable customer response we have received from residents of this city, this state and throughout the region. Over the past eight months, we have seen overall customer favorability toward the company improve more than 20 percent. We continue to grow customer relationships and market share throughout the Northeast. As an example, in the first six months following the legal date of our merger, we've opened 129,000 net new checking accounts and 118,000 net new savings accounts.

You can see and get a sense of some of the differences in our business model at our Berkeley Street location in Boston. This is not a new banking center, but it is has a completely new look and feel. In this regard, it is a flagship representing the open, welcoming, retail-like environment we offer for the convenience of our customers and for our sales associates. This year, we opened three new banking centers in Greater Boston, and we'll seek even more opportunities in the future.

Customers are telling us that they are excited about this new level of convenience and access. Another example of customer convenience innovation is our LoanSolutions program. It is bringing greater ease for Northeastern customers in applying for a mortgage through our 1,335 banking centers in the region.

This industry-leading technology already has enabled us to quickly and conveniently help more than 8,000 customers in the Northeast realize the dream of homeownership or to quickly and conveniently refinance their homes. Through all of our sales channels, we have helped more than 23,000 customers in the Northeast purchase or refinance a home and nearly 177,000 customers secure a second mortgage or Home Equity Line of Credit.

We also are maintaining or enhancing our product offerings to low- and moderate-income residents, including "low-cost" basic checking accounts and industry leading mortgage products such as Neighborhood Advantage and Neighborhood Champions – mortgage products created specifically for teachers, police officers, fire fighters and medical workers.

Though 2004 filings under the Home Mortgage Disclosure Act have yet to be finalized, we do have some internal tracking of our performance. Year-to-date through October, mortgage lending in our Northeastern states has resulted in 27.7 percent of all loans made to LMI borrowers, 17.7 percent within LMI areas, and nearly 18 percent to minority borrowers. Each represents significant increases in the percentage of total HMDA lending for these categories.

Small Business Customers

We recognize that small business is big business in America. It represents more than 99.7% of all employers and employs more than half of all private sector employees. We offer four critical things to our small business clients: convenience; superior service; products they can grow with and advice. We hear two primary things from our small business customers: make it easy to do business with you and give me value and advice. We are committed to supporting the neighborhoods and communities where our small business clients work and live. In terms of small business, Bank of America is the number one lender to small businesses, including nationwide leading performance in Small Business Administration lending.

Currently, we are seeing steady demand for small business capital across the Northeast – including New Jersey – with a very robust pipeline. We are at a highpoint for the year and are very encouraged going into 2005. Year over year in the Northeast, our application volumes are up just over 30%, and our booked loan commitments are up 35%.

As the 2004 number one SBA lender in United States, we made 12,758 SBA loans totaling $451.1 million. Our average loan size was $35,000, demonstrating that we are reaching and serving the truly small business owner. In addition, we are the number one SBA lender in 16 states. Based on the most recent data available, in 2003 we ranked number one in SBA lending to minorities nationwide. Forty percent of all loans and all loan dollars were to minority clients. Last year, we ranked number one in loans to Hispanics, Asian Americans and Native and more than tripled SBA loans to Hispanics and to African Americans.

Our neighborhood banking centers reach the smallest of companies and provide them great convenience -- confirming that we bank neighborhood businesses and actively support neighborhood economies across the state and country. Bank of America believes the SBA

program helps small businesses grow and prosper, and we plan to continue to aggressively offer these loans now and into the future.

Shareholder Value

Our merger is proving to bring value to shareholders of both companies. And, this benefits not just our investors, but our customers, our associates and our communities. In addition to the original 40% premium to their share price that Fleet's shareholders received on the day before the merger, they got an additional 7 percent from the Bank of America share price appreciation for the year after the announcement as measured from the day prior to the announcement.

Initially, some in the investment community expressed concern that this merger would negatively affect Bank of America's valuation for a long time. A year later, Bank of America shares are up 7% as measured from the close on October 24, 2003, the trading day before the merger announcement, to October 26, 2004.

Critics also said that big mergers hurt revenue and that the acquiring bank loses customers. We've proven that isn't the case.

Conclusion

Bank of America genuinely strives for excellence. We truly are seeking the highest standards of performance and accountability possible. Our merger, like many, has resulted in some job losses nationwide. But we've committed to maintain employment levels in New England, and we have an outstanding track record of meeting if not exceeding our commitments. We've also pledged to increase charitable giving and minority supplier utilization, and already have exhibited improvements in these areas over 2003 levels.

While bank mergers do impact local communities, I believe the net impact is a benefit when Bank of America is involved. Our contribution will be greater when we are allowed to follow our sound business processes. We have demonstrated that these processes work.

Thank you. I will be glad to try to respond to any questions that Members of the Committee might have.

MASSACHUSETTS ASSOCIATION OF COMMUNITY DEVELOPMENT CORPORATIONS 89 South Street, Suite 406, Boston, MA 02111 617 426.0303 Fax 617 426.0344

MACDC

TESTIMONY FOR THE
U.S. HOUSE OF REPRESENTATIVES
COMMITTEE ON FINANCIAL SERVICES
BOSTON, MASSACHUSETTS
DECEMBER 14, 2004

My name is Maureen Flynn and I am the Deputy Director of the Massachusetts Association of Community Development Corporations (MACDC). Thank you, Chairman Bachus and Congressman Frank, for giving MACDC the opportunity to submit testimony regarding recent bank mergers in Massachusetts.

MACDC's Mission and Accomplishments

MACDC is the trade association and advocacy arm of over 70 community development corporations (hereafter, "CDCs") in Massachusetts. We are the policy and capacity-building arm of the community development movement in Massachusetts. We support and advance the affordable housing, economic development and community-building strategies of our members. We work to build the power of low- and moderate-income (hereafter, "LMI") people to achieve greater economic, social and racial justice. Over the past two years, our CDCs have built or preserved over 1,000 homes; created or preserved almost 2,400 job opportunities, helped start or grow 1,200 locally owned businesses, and attracted $179 million in private and public investment to revitalize our communities. In addition, in 1998, MACDC spearheaded a successful legislative campaign creating the first and only state insurance community reinvestment law, which has yielded nearly $200 million in insurance community development investments.

MACDC has been a leader on and advocate for, community reinvestment negotiations, agreements, plans, and initiatives, because our member organizations serve and are composed of LMI communities and individuals. Over the past almost fifteen years, together with other community-based partners, we have developed and negotiated community investment agreements with banks, including agreements related to: the Bank of Boston/Bay Bank merger, the Fleet Bank/Shawmut Bank acquisition, the Citizens Bank/US Trust merger, the Fleet Bank/BankBoston merger, and Sovereign Bank's entrance into the Massachusetts market.

More recently, we have participated in, together with the New England Conference of the NAACP (hereafter, NEC of the NAACP), the Massachusetts Affordable Housing Alliance (hereafter, MAHA), the Fair Housing Center of Greater Boston (hereafter, the Fair Housing Center), and the Lawyers Committee for Civil Rights Under Law (hereafter, the Lawyers

Committee), the negotiations for a new Sovereign Bank community investment agreement, and a community investment agreement with Bank of America. I will address the questions put to the panel then regarding those two mergers.

1. The Effects of the Sovereign Bank/Seacost Bank and Bank of America/Fleet Bank Mergers on Jobs and Employees of the Acquired Banks.

We are, of course, concerned when there are a large number of layoffs in any industry, especially when the layoffs and job reductions disproportionately affect lower income employees, a specific geographical area of the state, or employees/job positions in a specific company which have yielded important results. On those terms, the two most recent bank mergers, which we are addressing today, both had deleterious effects on our communities:

Sovereign Bank
Southeastern Massachusetts, which includes the cities of Fall River and New Bedford, has a lower median income than the Boston area and has struggled with other dramatic workforce challenges, including the decline of the fishing industry. This area has also experienced a large percentage of job losses due to recent bank mergers, particularly attributable to the Sovereign Bank acquisition of Seacoast Bank. According to a report prepared by the Center for Policy Analysis at the University of Massachusetts at Dartmouth, between 1993 and 2003, employment in the banking industry in the southeastern Massachusetts decreased by 31%; most of those job losses were attributable to bank mergers. The 1995 Fleet acquisition of NBB Banccorp resulted in the loss of 179 employees and the closing of the NBIS headquarters in downtown New Bedford; the Bank of Boston/Bay Bank merger cost the area 100 employees; and, worst of all, the Sovereign Bank/Seacoast Bank merger eliminated 350 employees in southeastern Massachusetts.

Bank of America
The recent Bank of America acquisition of Fleet Bank resulted in the loss of key bank positions and employees who were able to make positive connections between Fleet Bank and the communities and consumers that CDC's serve. For example, several Fleet Bank staff who were laid off served on local small business advisory boards and loan review committees for community-based organizations. One employee was instrumental in helping get attention within the bank to projects that might have otherwise been overlooked. Several others were advocates for local, small business development. All of them, through their participation with local programs, had a solid understanding of the needs of local business owners in LMI communities and therefore supported programs and services that encouraged small business development. Those are important connections to the community that Bank of America is now missing. In addition, Bank of America has effectively reduced its CRA staff so that there is just one CRA officer covering two states – Massachusetts and Rhode Island.

Bank of America needs to dedicate itself to restoring and rebuilding these connections in order to achieve strong community investment results.

2. **The extent to which acquiring banks have entered into commitments during the merger process relating to employment, affordable mortgage lending, small business loans, community development, minority hiring and procurement and serving LMI individuals, the specificity of the commitments, and the extent to which such commitments are being met, are enforceable, and by whom.**

Sovereign Bank

On December 1, 2004, Sovereign Bank signed a new Community Investment Agreement (hereafter, "Sovereign Agreement") for the years 2004-2008. The negotiations for this Agreement actually started two years ago with a coalition of community groups, including the aforementioned organizations. The Sovereign Agreement, therefore, was not written pursuant to Sovereign's acquisition of Seacoast Bank but rather as an extension of Sovereign Bank's original three year agreement for Massachusetts. The Sovereign Agreement includes the following:

- ✓ $940 million affordable mortgage loans;
- ✓ $1.2 billion small business lending in the following categories:
  - $300 million in loans to LMI census tracts;
  - $300 million in loans under $100 million;
  - $300 million loans to companies with revenues under $1 million; and
  - $120 million in majority-minority census tracts;
- ✓ $30 million in equity investments for community development initiatives;
- ✓ A minimum of $30 million in the purchase of Low Income Housing Tax Credits;
- ✓ $25 million in loans and investment in the Boston Empowerment Zone;
- ✓ Notification to a designated community group on branch closings;
- ✓ A commitment to achieve 20% racial and gender diversity within all EEO-designated categories;
- ✓ A commitment to achieve a goal awarding 20% of all Massachusetts based purchasing contracts to firms owned by people of color; and a commitment to awarding 15% of the aforementioned to women-owned businesses;
- ✓ $222 million in community development financing;
- ✓ $4.5 million in grants to community-based non-profits, including those involved in community development and civil rights issues; and last, but not least,
- ✓ A commitment to maintain a Massachusetts Commonwealth Advisory Group.

The Agreement, in essence, contains all of the provisions which the community coalition requested – most importantly: commitments to affordable housing and small business lending, an advisory council, and goals on diversity in hiring and awarding contracts. We negotiated on the levels of commitments and in the end, Sovereign Bank was able to actually make the commitments, put them in writing, sign a Community Investment Agreement, and create a partnership with a community coalition to do as the state and federal community reinvestment laws require: make a pro-active attempt to meet the credit needs of LMI communities. The bank, in making commitments to hiring and contract goals, went beyond the requirements of the law and in doing so, has demonstrated that it wants to be a contributing member of creating an economy and society which is inclusive of and reflective of all of its citizens. Could Sovereign Bank do more to mitigate the effects of its acquisition of Seacoast Bank, especially for the southeastern Massachusetts? Absolutely. Does the Agreement contain a plan for mitigating the effects of job loss? No. Our work is not finished on the merger and neither is theirs. We intend to work with them, through the framework of this Agreement and through the Advisory Council, so that Sovereign Bank becomes a true community partner and leader in southeastern Massachusetts. The fact that we have an Agreement with them makes that possible.

Bank of America

In November 2003, just after Fleet Bank announced that they were accepting an acquisition proposal by Bank of America, a coalition of community groups, including the NEC of the NAACP, MAHA, the Fair Housing Center, and the Lawyers Committee, proposed a Massachusetts- specific "Community Investment Plan" to Bank of America based on what we understood, as representatives of the community, were community credit needs. This proposal contained almost identical categories as those contained in previous Sovereign Bank and Citizens Bank agreements. The proposal was also based on the relative size of Bank of America and its ability to provide services, investment, and lending in Massachusetts. A copy of that proposal, and our follow up proposal is attached.

We expected that Bank of America would literally sit down with us, as Sovereign Bank and Citizens Bank had done, and work out a community investment agreement based on our proposals. In the end, we would have a mutually developed agreement that would chart and outline Bank of America's path to meeting community credit needs.

In February, after several meetings and intense discussions with Fleet Bank and Bank of America officials, Bank of America agreed, in writing, to a written Massachusetts plan.

It is important to note the distinction here between so called community investment "plans" and "agreements." A plan may be issued by a bank in an attempt to meet their CRA requirements but it is not a mutually developed "agreement" that a bank and community representatives write together. An agreement involves community groups identifying to the bank community credit needs and the bank responding with a proposal to meet those credit needs, then the bank and community groups working out a mutual "agreement." Typically, agreements are more specific and more easily monitored than commitments, although of course it various from situation to situation. As previously noted, currently, the two other largest banks in Massachusetts, Citizens Bank and Sovereign Bank, have agreements with community groups.

In the first few months of this year, Bank of America agreed to make several commitments on areas contained in our proposal. The bank:

- ✓ Joined the Federal Home Loan Bank of Boston;
- ✓ Committed to making 3,000 home mortgage loan under the Soft-Second Program, which is Massachusetts's successful affordable mortgage program;
- ✓ Agreed to convert some of their state-required Massachusetts Housing Partnership loan obligation to equity, which will then provide much needed pre-development funds for community-based non-profit housing developers, like our members;
- ✓ Agreed to establish a basic checking and savings account that meets the minimum account requirements that the Massachusetts Community Banking Council has established to serve LMI customers;
- ✓ Agreed to make investments in the Massachusetts Housing Investment Corporation; and
- ✓ Made a charitable contributions commitment to the Northeast, although the commitment to date has not included a specific budget for Massachusetts, nor has it provided assurance that community development will continue to receive the same proportion of grants from Bank of America as it did from Fleet Bank.

We appreciate Bank of America's commitments to date and think the commitments are a good first step in partnering with Massachusetts communities. To date, however, more than one year after Bank of America announced their plan to acquire Fleet Bank, there are four extremely important outstanding issues on which Bank of America has not agreed to make commitments or set goals:

- ✓ Small business lending goals by loan type and area. We had requested that Bank of America establish specific lending goals as follows:
  - o loans by geography
    - 25% of small business loans should be in LMI census tracts;
    - 20% of small business loans should be made in majority-minority census tracts;
    - 15% of small business loans should be made in rural/non MSA areas;
  - o 80% of its small business loans under $100,000; half of these under $50,000 and 25% in the geographical areas of focus mentioned above;
  - o 80% of its loans to businesses with under $1m in revenue;
- ✓ Goals for diversity in hiring - 20% of its employees be persons of color within all employment levels, including management categories;

- ✓ Goals for diversity in awarding contracts - award 20% of its vendor contracts to companies owned by people of color and 20% of its vendor contracts to companies owned by women; and

- ✓ The establishment of a formal Massachusetts bank-community advisory council.

Without these goals set, Bank of America's work on CRA then is incomplete.

Why should Bank of America include the missing goals in an agreement, or even in a bank issued plan?

First, issuing specific goals for small business lending by type and geographic area provides the bank with a guide and program with which to do small business lending so that they know they are meeting <u>smaller</u> businesses' credit needs, the credit needs of businesses located in geographical areas that desperately need investment, both LMI areas, and majority-minority census tracts, and the credit needs of locally grown star-up businesses who are most likely to need smaller loans. Federal CRA regulations require banks to be assessed on their small business lending based on these categories for this very reason: to ensure that banks are meeting the credit needs of the all of communities they serve.

Second, while the federal CRA law doesn't include a provision requiring banks to set goals for either contracting with businesses owned by people of color and women, or hiring and maintaining a diverse workplace, a comprehensive community investment plan would include such goals because in doing so, a bank is acknowledging its economic and moral responsibility to invest in and support all of the businesses and the total potential workforce in the communities the bank serves.

Third, a formal Massachusetts Advisory committee or council is a necessary component to a comprehensive community investment plan. It establishes the necessary framework through which the bank and community groups can review the implementation of the components of a plan.

In addition, without these goals set, there can be no written community investment agreement or plan with Bank of America that adequately attempts to serve the credit needs of the citizens of Massachusetts.

We have spent the last eight months repeatedly meeting with Bank of America officials on these issues under the impression that the time and energy spent in these meetings would result in some agreement on these outstanding issues. We even submitted to the bank, at the bank's request, further information, on what should be included in a Massachusetts plan. Despite all of this effort, the bank announced that it would be issuing a plan this past week, the contents of which, up until late Friday afternoon, were unknown to us.

As we mentioned, we appreciate the commitments that Bank of America has made so far to Massachusetts. Sovereign Bank and Citizens Bank have been able to meet the standard established by our state in terms of being parties to solid community investment agreements. We only ask that Bank of America meet that standard as well, or even, as their advertising campaign

suggests, that they try to achieve a "higher standard," reflective of their preeminent ranking in the financial market as the second largest bank in the country.

3. Whether current laws, including the Bank Holding Company Act and the Community Reinvestment Act, provide sufficient criteria for the review of the impact of bank mergers on communities, and are adequate to ensure that the communities' interests are protected after the merger has been completed.

The current Bank Holding Company Act and the Community Reinvestment Act do not provide sufficient review of the impact of bank mergers and are woefully inadequate to ensure that communities' interests are protected after a merger.

First, CRA regulations should include an assessment of how well banks' have met the credit needs of communities of color. CRA is broad enough to encompass a bank's obligation to meet the entire community's credit needs and specifically includes in that obligation, the need to address LMI communities credit needs. The law does not specifically exclude any other facets of communities and should therefore be interpreted to obligate banks to meet the credit needs of communities of color. One of the main reasons advocates pushed for the passage of CRA was many financial institutions' historical practice of redlining out communities of color. How can CRA regulations, and in turn, the Bank Holding Company Act, be adequate to assess the impact of bank mergers and whether communities' interests are being served if this issue is ignored?

Second, there are two inadequacies in section 3 of the Bank Holding Company Act, which requires that in determining whether to approve an acquisition application, banks' regulators must assess whether the merging banks have complied with the CRA law in meeting the credit needs of a community:

a) The assessment is made on past history, i.e., how the two merging banks have met credit needs in the past. The assessment is not based on the one merged bank's plans to meet credit needs AFTER a merger. In contrast, all of the other factors regulators must weigh under section 3 are prospective – after a merger is complete. The regulators must assess the competitive factors, managerial factors, safety and soundness of the two banks <u>if</u> they are merged. The only factor to which regulators look to the past is the banks' CRA records. This would seem to be a huge deficit in the law. There is therefore, no means to address the effect of a merger or acquisition on the banks' ability to meet communities' credit needs. To win a merger application, banks must face rigorous questions about their business plans, ostensibly to ensure for the banks' stockholders and the public that the bank does not fail. We propose that banks undergo the same rigorous evaluation about their community investment plans, again to ensure that the bank does not fail the public.

b) Last, there is no requirement that regulators compare the performance, under CRA, of the merged bank to the two banks' CRA performance before they merged. Therefore, there is no incentive for banks to take into account any diminution of services, investment, or lending post-merger. This type of assessment should be part of the merged bank's first CRA exam post-merger to ensure that the merged bank is either maintaining or improving its performance on all CRA-related activities.

Again, we thank the Committee very much for allowing us to submit testimony on these very important issue to Massachusetts citizens.

PROPOSED COMMONWEALTH INVESTMENT PLAN FOR BANK OF AMERICA

Mortgage Lending/Soft Second Program

The Soft Second Program is the most affordable mortgage program in the state. It is a partnership between banks, non-profit organizations, state government, and local communities that has served over 7,000 home buyers since its inception in 1991. In addition to being the most affordable mortgage option, the Soft Second program has a delinquency rate below the state wide average for all mortgage loans.

Bank of America will make a commitment to offer the program in Boston, where it originated as a response to the 1989 Federal Reserve Bank study on racial disparities in mortgage lending, and throughout the state. Fleet has been the leading lender in the SoftSecond program, and Bank of America will be as well.

Massachusetts Housing Partnership Obligation

Bank of America will be responsible for making a several hundred million dollar loan commitment to the Massachusetts Housing Partnership (MHP) per the requirements of Massachusetts General Law Chapter 167A and Chapter 102. The precise amount of the requirement will be determined by the Massachusetts Housing Partnership in accordance with state law. Four years ago, when Fleet merged with BankBoston, the bank had a $250 million obligation to MHP. Fleet agreed to a $143 million loan to MHP and to convert the remaining portion of the debt into a $12 million grant to MHP. These funds were then used by MHP to finance more affordable housing for Massachusetts residents. Bank of America will agree to converting some of its commitment to MHP into equity to enable the program to better serve low- and moderate- income families.

Basic Banking Services

- Branches – Bank of America will commit to not closing any Fleet branches in any low- or moderate- income census tract within the Commonwealth of Massachusetts.

- Basic Banking Account – This voluntary low cost checking and savings account program was started by the Massachusetts Community Banking Council in 1992. More than 80% of the branches in the state now offer this product which features the following:

  * monthly checking fee of no more than $3.
  * 8 free checks or ATM withdrawals.
  * savings account with $10 minimum balance and maximum monthly fee of $1.

The Bank will establish specific annual goals for enrolling new customers in the Basic Banking Account. Those goals will equal or exceed Fleet's recent track record.

Community Development Financing

Bank of America will set aggressive goals for community development financing, including lending for the acquisition, construction, and permanent financing for commercial, industrial and mixed-used properties in low and moderate income communities.

Equity Investments

Bank of America will establish a goal of investing equity in community development financial institutions, community development corporations, and equity loan pools. Fleet is the leading investor in the Massachusetts Housing Investment Corporation's loan pool. However, Fleet has decided that in January, 2004, it will decrease its commitment to the loan pool. Bank of America will reverse Fleet's decision and maintain Fleet's current level of investment.

The bank will also invest in the so called "New Market Tax Credits."

Fleet's present investment in housing tax credits programs is lower than the prior investments made separately by Fleet and each of the three banks that Fleet has acquired in the last few years (Shamut, BayBank, and Bank of Boston). Bank of America's investment post merger will be increased to this prior level of commitment

Small Business Lending

Bank of America will establish aggressive goals for the percentage of loans under $100,000 and under $50,000 that it makes to small businesses grossing $1 million or less each year. It will also establish goals for making a considerable percentage of these loans in low- and moderate income census tracts. The Bank will also maintain its involvement in loan programs sponsored by the U.S. Small Business Administration, including the community express program.

In addition, the Bank of America will employ a second look program for all of its small business applications. Bank of America will work with local partners to refer declined loans to technical assistance programs and nontraditional lenders where appropriate. The Bank will also continue and expand Fleet's contracts with community-based organizations that provide technical assistance to small businesses so that the small businesses can prepare quality loan applications.

Workforce Diversity

The Bank will commit to a goal of having 20% of its employees be persons of color within all employment levels, including sub-management categories.

Procurement

The bank will award 20% of its vendor contracts to vendors owned by people of color and 20% of its vendor contracts to vendors owned by women. The Bank will verify, either internally or externally, that all contracts counted in these categories are legitimately owned by the respective group members.

Charitable Giving

In 1999, Fleet Boston made a commitment to provide $11 million in charitable contributions for Massachusetts per year, with one-third of which was designated for community development purposes. The bank has also provided approximately $1 million per year in technical assistance funds to Massachusetts organizations. The Bank of America will increase this commitment to reflect its considerable assets and the impact of inflation since 1999.

During this plan, Bank of America will commit to make $12 million per year in charitable contributions to non-profit organizations in Massachusetts, with a minimum of $4 million directed to community development efforts. Bank of America will also continue the technical assistance grant program with $1 million per year in funding for Massachusetts organizations.

Individual Development Accounts

In the past four years, Individual Development Account Programs have grown at the community level to 650 accounts throughout the state. IDA participants have saved money, developed their personal financial skills, and invested in homes, businesses, and colleges throughout Massachusetts. Fleet Bank assisted in the development of IDAs and has made a commitment to grow individual assets by taking IDA programs up to scale on a level comparable with other states. Bank of America will continue Fleet's initiative and make a match funds commitment as part of this plan.

Membership in the Federal Home Loan Bank

Bank of America will continue Fleet's membership in the Federal Home Loan Bank and will continue to participate in the FHLB's programs at the same level at which Fleet participated in its programs.

Community Advisory Board

Bank of America will establish a Massachusetts community advisory board to oversee the implementation of the Commonwealth Investment Plan. The Bank will also make a commitment to quarterly meetings of this board so that the Bank's progress on the Plan can be monitored.

February 6, 2004

Mr. Doug Woodruff, President
Community Development Banking
Bank of America
800 Market Street
St. Louis, Missouri 63101

Dear Doug:

Thank you for meeting with us on January 13, 2004 to continue discussing the proposal that we sent to you in November regarding a Bank of America community investment plan for Massachusetts. We are glad that Bank of America has decided to develop a Massachusetts "business strategy," and that the Bank has agreed to several of the items in our original letter, including: joining the Boston chapter of the Federal Home Loan Bank, participating in the Massachusetts Soft-Second Program, maintaining an investment in the Massachusetts Housing Investment Corporation, and converting some of the Bank's Massachusetts Housing Partnership lending liability to equity.

As you know, there are several issues outstanding on which we have yet to reach a conclusion. . In the hopes of moving forward in a timely manner, we are sending a list of those issues from our original proposal that we believe require further action. Where we did not include specific details on these issues originally, either because we lacked the information to provide such detail, or it would have been inappropriate to include the detail, we have now included those specifics.

It is our understanding that Fleet officials would like to meet with us on February 10th. It is our expectation that we will be discussing some of the issues included herein and hopefully, coming to agreement on some of those issues. If this is not the case, please let us know in advance of the meeting. We would appreciate your attendance at that meeting since we have been meeting with you and communicating with you since the beginning of this process, and we believe it is most productive to have Bank of America represented by someone with decision making authority.

Of those issues remaining to be addressed, we would like to discuss the form of the Massachusetts Housing Partnership obligation, basic banking services, charitable giving, and IDA accounts at the meeting on February 10th. At that time, we would appreciate a tentative schedule of subsequent meeting topics and dates, which should include: small business lending, procurement and diversity, and a Massachusetts Community Advisory Board.

Thank you in advance for your attention to these matters. We look forward to working cooperatively with you so that Bank of America can develop a quality, specific community investment business strategy for Massachusetts.

Sincerely,

Massachusetts Association of Community Development Corporations

Massachusetts Affordable Housing Alliance

Citizens Housing And Planning Association

Fair Housing Center of Greater Boston

New England Area Conference of NAACP

Cc: Congressman Barney Frank
Gail Snowden, Fleet Bank
Michael Glavin, Fleet Bank

Bank of America
Community Investment-Related Issues Remaining

1. Massachusetts Housing Partnership Obligation

There are three issues related to the bank's obligation to the Massachusetts Housing Partnership (MHP):

a. The Amount of Equity Conversion

As the attached chart shows, Fleet, Citizens and Bank North have converted some or all of their MHP loan obligation to equity/grant funding. The percentage of the amount converted ranges from 100% to a low of 41%. In 1998, Fleet converted almost 43% of its loan obligation to equity.

MHP has used the majority of the equity conversion funds to finance their "Perm Plus" program, which provides 0% interest deferred payment 20 year financing loans to affordable housing developers.

According to MHP, there is approximately $6 million left in "equity" from prior conversions. Approximately 78% of the equity funds have been lent/granted to non-profit borrowers. According to MHP, their current pipeline of projects will use all of this equity. The fact that Bank of America is buying the last and biggest bank headquartered in New England means that this is a critical opportunity to finance the Perm Plus program with enough equity sufficient to match need. Therefore, there is a great need for an infusion of more equity to be used for the PermPlus program.

The conversion rate for all equity conversions since 1995, the year of the first conversion, has been .1112.

We are requesting that Bank of America convert 35% of its loan obligation to equity. This would provide approximately $21.3 million in equity funds. The conversion rate should not be lowered.

b. The Amount of Set-Aside for Lower Interest Loans for Not-for-Profit Developers

Four banks have provided a set aside for lower interest rate loans to non-profit developers. The percentage of the set-aside of the banks' total loan obligation has ranged from 10% to 51%. The interest rate set aside has resulted in more cost efficient developments and allowed non-profits to finance affordable housing developments at a reasonable rate.

Bank of America should set aside 10% of its total loan obligation at a lower interest rate for non profit developers, which would equal a set aside of approximately $55

million. Fleet was able to set aside 10% of its loan obligation in 1998 and the percentage rate is reasonable given other banks' set-asides.

c. The Amount of Forward Rate Lock Accessible on Loans

Four banks have also set aside an amount of their loan obligation for "forward rate lock" loans. The percentage has ranged from 10% to 51%.

Bank of America should set aside 10% of its total loan obligation for "forward rate lock" loans, which would equal a set aside of approximately $55 million.

2. Basic Banking Services

Branches

As we mentioned in our last meeting, we are requesting notification to the signatories on this letter before Bank of America closes a branch in a LMI and/or majority-minority census tract. We would like at least 10 days from the date of such notification to raise issues or concerns before the bank actually files for regulatory approval of such closure.

Branch closings must be reported to the state banking commission and advance notice to us would not therefore be a significant burden to the Bank. In addition, we may be able to assist you in making that decision and/or help you to understand what a closing in the potentially affected area would mean to its residents.

Basic Banking Account
According to the Massachusetts Community Banking Council, Bank of America's "My Community Access" account would not meet definition of a basic banking account because the monthly fee is too high ($5.95) without direct deposit. Many low wage workers do not have access to direct deposit through their employers.

Bank of America should continue Fleet's practice of offering a product that complies with the MCBC standard by July 1, 2004.

3. Small Business Lending

Bank of America should commit to the following small business lending goals:

Loans by Geography
Bank of America should commit to making 40% of its small business loans in Massachusetts to the following areas:

- **25% of small business loans should be in LMI census tracts;**
- **20% of small business loans should be made in majority-minority census tracts;**
- **15% of small business loans should be made in rural/non MSA areas.**

Loans under $100,000

Bank of America should commit to making 80% of all small business loans under the amount of $100,000. Half of these loans should be under $50,000. Twenty-five percent (25%) should be made in the geographic areas of focus mentioned above.

Loans to Businesses with under $1m GAR

Bank of America should commit to making 80% of its small business loans to businesses with under $1m GAR. Of these loans, 25% should be made to businesses in the geographic area mentioned above.

Second Look Program

If a small business loan is denied by credit score, Bank of America should take a "second look" at the loan before sending a denial letter.

If Bank of America denies a loan or if Bank of America is approached by a business in need of help with their business plan or if the business is in need of another type of small business related assistance, the Bank should work with local programs to send referrals.

Participation in Local Small Business Programs

The Bank should encourage staff (both lenders and community development banking staff) to participate in community based business assistance advisory committees and loan review committees.

Community Express Program

The Bank should continue offering the SBA Community Express Program. This program attaches a pre- and post-loan technical assistance component to the loan's approval. The Bank should continue the program, which, as initiated by Fleet Bank, offers a contract opportunity for technical assistance providers to receive funding on a loan by loan basis for post-loan technical assistance.

4. Workforce Diversity

We reiterate that the bank should commit to a goal of having 20% of its employees be persons of color within all employment levels, including management categories. Two other banks in Massachusetts revealed to us, under strict confidentiality, their employment levels by race for all positions. While Bank of America is under no obligation to do so, it would be helpful for us to know how the bank is performing currently and how much progress needs to be made to reach a 20% goal.

5. Procurement

We reiterate that the bank should award 20% of its vendor contracts to companies owned by people of color and 20% of its vendor contracts to companies owned by women.

Again, another large bank doing business in Massachusetts has agreed to these separate goals. Simply because Bank of America currently has achieved only an 8.5% combined level for vending contracts with companies owned by people of color and companies owned by women should not mean that the Bank's goal is substandard. A twenty percent goal is reasonable and achievable. We do not expect the goal to be reached this year but within five years, or the length of the Massachusetts "business strategy." We also want to understand better how the plan to ensure that Massachusetts-based MWBEs are able to secure business with the bank.

6. Charitable Giving

We understand from discussions with Fleet officials that Bank of America has now committed to $28 million per year in charitable giving contributions for the current Fleet footprint, with the potential for that number to grow higher within the context of the bank's national commitment to provide $1.5 billion in philanthropy. (Actually, there is some confusion as to whether this commitment applies to the Fleet footprint, the Northeast or New England. Please clarify precisely what geographic area is covered by that commitment). We restate our request that Bank of America make a Massachusetts-specific commitment to charitable giving that starts at the average of the last four years (to be determined with Fleet) and rises 40% over the next ten years.

According to Fleet and Bank of America representations in prior discussions, Fleet currently dedicates approximately 60% of its charitable giving to community development activities whereas Bank of America only dedicates approximately 25% to community development activities. Please confirm these numbers, if possible.

Bank of America should increase its charitable giving to community development efforts to 60% so that there is no retrenchment in Fleet's giving while Fleet's community investment plan would have been in place.

Bank of America should also increase its charitable giving to local civil rights organizations.

7. Individual Development Accounts

Bank of America should continue and expand Fleet's commitment to IDA's by committing to establishing 2000 accounts over 5 years with a total commitment of $8 million. There is a need to establish this level of accounts based on community need throughout the state and the capacity of for example, Massachusetts IDA Solutions (MIDAS) members' ability to establish asset development opportunities for low-income residents.

MIDAS members have been overwhelmed by the demand on their IDA programs and are currently limited in the number of families that they can serve.

8. Massachusetts Community Advisory Board

We reiterate that Bank of America should institute a Massachusetts Community Advisory Board. The Fleet Community Advisory Board was incredibly helpful to Fleet and to the community as a place to share information about the bank's progress, products and programs over the last 3 plus years of the Fleet community investment plan.

MASSACHUSETTS
AFFORDABLE
HOUSING
ALLIANCE

Introduction
Thank you for the opportunity to testify today Chairman Bachus, Ranking Minority Member Frank and other members of the Committee. We appreciate the willingness of the Committee to come to Boston for this field hearing and listen to testimony about the impact of recent bank mergers and the overall impact of the Community Reinvestment Act (CRA) and the Bank Holding Company Act. We particularly thank Congressman Frank for his strong support for the CRA and his successful efforts to encourage banks to make specific commitments to the communities they serve.

My name is Florence Hagins and I am the assistant director of the Dorchester-based Massachusetts Affordable Housing Alliance (MAHA). I am also a resident of Dorchester and the first recipient of a Massachusetts SoftSecond mortgage – a nationally-recognized affordable mortgage product for first-time homebuyers.

Background on MAHA
MAHA is a non-profit organization that works to increase public and private sector investment in affordable housing and to break down the barriers facing low-to-moderate income first time homebuyers. Our campaigns since 1985 have resulted in $3.4 billion in increased investment in Massachusetts communities. MAHA has been involved in every major bank merger in Massachusetts since 1989. We launched the SoftSecond program with banks and the Massachusetts Housing Partnership Fund in 1991. We continue to sign multi-year CRA agreements with most major banks in the state detailing commitments to the program which is the state's most affordable mortgage product.

Our signature program is the SoftSecond mortgage program. The program is fourteen years old and has helped over 7,700 low and moderate income homebuyers buy their first home. MAHA negotiated the mortgage program with three banks in 1990 following the Federal Reserve Bank of Boston study on racial disparities in Boston's mortgage lending. The program was expanded statewide in 1992 and is now available in 285 cities and towns throughout the Commonwealth through 38 participating banks.

Buyers provide a 3% downpayment and receive two mortgages; one worth 77% of the purchase price and the soft second that equals 20%. Buyers pay no private mortgage insurance and most banks offer the product at a below-market interest rate negotiated with MAHA. A July, 2004 report by Jim Campen of the Gaston Institute at the University of Massachusetts/Boston for the Massachusetts Community and Banking Council found:

• SoftSecond loans have assisted families in over half of the cities and towns in Massachusetts. In recent years, the city of Boston and the western region of the state have each received about 30 percent of total loans, with the rest distributed throughout the state.
• The median household income of SoftSecond borrowers between 2001 and 2003 was $36,600. During that period, over one-quarter (28.3 percent) of SoftSecond loans went to borrowers whose household incomes were less than half of the median income in their area. Almost all (97.2 percent) went to borrowers with incomes less than 80 percent of the area median.
• Statewide, between 2001 and 2003, 22.7 percent of SoftSecond loans went to Latinos (who account for just 5.0 percent of the state's households); 15.3 percent of loans went to blacks (who account for 4.7 percent of total households) and 4.5 percent of loans went to Asians (who account

for 3.1 percent of total households).
• Through the first quarter of 2003, the statewide SoftSecond delinquency rate was consistently below the delinquency rate for all mortgage loans in Massachusetts.
• Statewide, between 2001 and 2003, an average $5,700 in public funds leveraged nearly $200,000 in private mortgage financing per household. Since the program's inception in 1991, $35 million in public funds have been spent, leveraging $875 million in private mortgage financing.

Bank of America/Fleet merger

Bank of America's merger with Fleet Bank has a lot of potential for Massachusetts. On January 13, 2004 BofA signed an agreement with MAHA for 3,000 SoftSecond loans in Massachusetts over the next ten years. In addition, BofA made public commitments to other housing programs. They agreed to remain a member of the Federal Home Loan Bank of Boston. They agreed to remain fully invested in the Massachusetts Housing Investment Corporation (MHIC), a private lender and investor specializing in the financing of affordable housing and community development throughout Massachusetts. MHIC was founded in 1990 by a consortium of banks and other corporate investors to fill a critical gap in meeting the credit needs of affordable housing developers and owners who couldn't get financing for certain projects from traditional lenders. MHIC was asked to take on the most difficult projects and make them work. Similar to the SoftSecond program, MHIC started as a result of the bank/community negotiations in the aftermath of the Federal Reserve Bank of Boston study on racial disparities.

Bank of America agreed to convert a portion of its Chapter 102 loan commitment to the Massachusetts Housing Partnership to an $18 million grant. A 1990 Massachusetts law requires that banks that purchase other banks set aside a percentage of the acquired assets located in Massachusetts as a loan to MHP, a statewide public/nonprofit affordable housing organization. Bank of America will provide a $406 million loan in addition to the $18 million grant.

Bank of America and MHP reached an agreement on the mandatory loan amount, and then the bank agreed to convert a portion of the loan into the $18 million grant. The grant is key because it can be used in combination with traditional financing to promote housing that serves extremely low-income families, the working poor and homeless, and to develop housing that is smaller in scale and supported by the community.

And Bank of America agreed to participate in the Massachusetts Basic Banking program by offering low-cost checking and savings accounts, a voluntary program initiated in 1994 by the Massachusetts Community and Banking Council. On housing, Bank of America has made the right commitments.

Bank of America has a chance, as they enter this market, to be the lender of choice for low and moderate income residents in Massachusetts. With its commitment to the Massachusetts SoftSecond program and its impressive portfolio of existing mortgage programs, BofA has a product mix that is second to none. In recent years, however, Fleet and other bank lenders have lost market share to mortgage companies. BofA has the capacity to turn that around, especially in low and moderate income markets.

It will take an aggressive commitment to better serve these markets. BofA needs to hire more loan originators, hire more originators from diverse backgrounds, increase its marketing in low to moderate income neighborhoods, and provide good and timely customer service throughout the mortgage process. We have had discussions with Anne Finucane of Bank of America and we are in agreement that staffing levels for loan originators need to be significantly increased in the Boston market. We appreciate the commitment that Bank of America has made to increase its staffing levels in the mortgage area.

In addition, BofA senior management will need to emphasize the importance of increased production in the SoftSecond program. In the first eleven months, we have seen mixed results under the BofA

SoftSecond agreement. BofA has exceeded its commitment of 150 loans outside of the city of Boston by closing 165 mortgages, making them the #1 lender in the program statewide. In Boston, however, the numbers tell a far different story. BofA has closed 52 loans in the city of Boston against a commitment of 100 loans – making them only the third largest SoftSecond lender in the city of Boston.

MAHA has had limited interaction with the bank on job and employment issues. As stated above, we believe the bank recognizes the need to step up employment levels in its mortgage departments and we applaud them for that. We remain concerned about relatively thin levels of staff responsible for community development. In the past, Fleet had two community development staffers for the Commonwealth of Massachusetts. Today, one community development staff person is responsible for the whole state plus Rhode Island.

MAHA has very high hopes for BofA. We believe that Bank of America can be an important partner with community groups across Massachusetts and bring the resources of a large, national bank to communities like Dorchester. But we expect BofA to lead and work aggressively to be the best bank on the block.

Sovereign/Seacoast merger
MAHA has also reached agreement with Sovereign Bank, prior to its merger with Seacoast, for commitments to the SoftSecond loan program. Sovereign has committed to a total of 575 SoftSecond loans during the next three years – 275 in Boston and 300 in the balance of the state. In 2004, Sovereign's commitment is for 75 loans in Boston and 100 outside of Boston. Through November, 2004 they have closed 61 loans in Boston making them the second largest SoftSecond lender in the city. Outside of Boston, Sovereign has closed another 83 loans which ties them for second largest SoftSecond lender outside of Boston.

During the merger process, MAHA encouraged Sovereign officials to make specific commitments to New Bedford and the South Coast region of Massachusetts. Sovereign officials have been willing to do this – pledging to make 25 SoftSecond loans per year in the region. In addition, Sovereign has taken the advice of Congressman Frank and is working with the Massachusetts Housing Partnership to direct a portion of the loan resources from its state Chapter 102 commitment to the New Bedford area.

Comments on Community Reinvestment Act and Bank Holding Company Act
The Committee has asked us to address the adequacy of the CRA and the Bank Holding Company Act in protecting communities' interests. We offer the following comments on that subject.

One weakness of the CRA, or at least CRA as it is enforced by federal regulators, is that banks are not compelled to enter into signed, written agreements with community groups. Many choose instead to make "public commitments". Agreements can be enforced and generally include more specific commitments. With some banks, any detail that exists about a commitment is in the press release the bank uses to announce the commitment. Real community commitments are negotiated with representative community organizations. Any other serious relationship between a bank and its customers, partners, and vendors is typically in the form of a written agreement. CRA commitments should be no different.

CRA is a law that needs to be expanded. As we have mentioned above, banks have lost market share to mortgage companies. Many of these mortgage companies fall outside of CRA review yet they are the dominant lenders in the mortgage market. In Boston in 1990, banks covered by CRA controlled 78% of the mortgage lending market. Last year, that bank market share percentage had slipped to 23%. Yet, banks covered by CRA lend to lower income and minority borrowers at a rate more than double that of largely non-CRA covered mortgage companies. In Massachusetts, MAHA has worked with Senator

Jarrett Barrios, Senator Andrea Nuciforo and Representative Marie St. Fleur to file the Homeownership Investment Act which would apply CRA-like responsibilities to the largely unregulated mortgage companies.

Congress must beware of efforts by federal regulatory agencies to weaken CRA. The Office of Thrift Supervision recently raised the small bank threshold from $250 million to $1billion allowing many banks to eliminate the investment and service components of the three pronged CRA test. The Federal Deposit Insurance Corporation seems poised to follow the lead of the OTS. These changes represent a dangerous precedent which significantly weakens an important and effective law.

We also support expanding CRA to include disclosure of race information on small business loan data and to specifically include areas such as diversity in employment and procurement from minority-and women-owned business enterprises. The Bank Holding Company Act could be strengthened to encourage more public hearings when bank mergers are proposed. Hearings like the one held by the Federal Reserve Bank during the Bank of America/Fleet merger and today's follow-up hearing by this Committee serve to focus the attention on the level of specific commitments banks are making to customers and communities. A law that encouraged more such hearings, and the scrutiny that accompanies these forums, would be welcome news to low and moderate income neighborhoods throughout the country.

We thank you for the opportunity to testify today and we would be happy to answer any questions.

COMMONWEALTH OF MASSACHUSETTS
MASSACHUSETTS SENATE
STATE HOUSE, BOSTON 02133-1053

SENATOR ANDREA F. NUCIFORO, JR.
BERKSHIRE, HAMPSHIRE
AND FRANKLIN DISTRICT
ROOM 213B, STATE HOUSE
TEL. 617-722-1625
FAX. 617-722-1523

DISTRICT OFFICE:
74 NORTH STREET
PITTSFIELD, MA 01201
TEL. 413-442-6810
FAX. 413-442-6927

COMMITTEES:
BANKS AND BANKING (CHAIRMAN)
SENATE WAYS AND MEANS
ELECTION LAWS
LOCAL AFFAIRS
STEERING AND POLICY

Statement of Andrea F. Nuciforo, Jr.

Massachusetts State Senate

Senate Chair of the Joint Committee on Banks and Banking

Before the House Financial Services Committee

December 14, 2004

Chairman Oxley, Ranking Member Frank and Distinguished Members of the Committee.

My name is Andrea F. Nuciforo, Jr. I have served in the Massachusetts state Senate since 1997. Since 1999, I have served as the Senate Chair of the Joint Committee on Banks and Banking.

Thank you for the opportunity to testify today on the effect that recent mergers of banks and other depository institutions have had on communities where the banks, particularly the acquired banks, are located.

I would like to thank Congressmen Frank, Capuano, Lynch, Tierney and the rest of the Massachusetts Congressional delegation for focusing on this issue in Massachusetts. Earlier this year, I participated in a meeting called by Congressman Frank when the news first broke that Bank of America might not fulfill the commitments it made to regulators and to the affected communities.

Bank Mergers Result in Employee Layoffs

I have been increasingly concerned about the community impacts of these mega-mergers between banking institutions. It has been my unfortunate experience to see layoffs, replacement of full-time jobs with part-time jobs, and broken promises from bank officials. When banks merge, jobs are lost. For example:

- The 1995 merger between Fleet Financial Group and Shawmut National Corp. resulted in an estimated 2,000 jobs lost.[1]
- The next year, another 2,000 positions were lost in the plan to merge Bank of Boston and Baybanks Inc.[2]
- According to documents that FleetBoston filed with the Securities and Exchange Commission, at least 4,000 jobs were to be lost when it acquired BankBoston in 1999.[3]
- As part of the FleetBoston takeover of BankBoston, Sovereign Bancorp acquired 278 former FleetBoston branches. Sovereign then laid off 500 bank employees.[4]

[1] Krasner, Jeffrey, Boston *Herald*, "Fleet to announce first round of layoffs", Jul. 20, 1995, pg. 32.

[2] Carroll, Matt, Boston *Globe*, "Nearby branches face closings: Consolidations may open door for local banks"; Feb. 4, 1996, p.1

[3] New York *Times*, "FleetBoston Is Planning to Lay Off 4,000 Employees", Mar. 11, 2000, p. C.3.

[4] New York *Times*, "Sovereign Set to Dismiss 500 Bank Managers", Nov. 28, 2000, p. C.8.

- Earlier this year, Sovereign announced it would eliminate over 300 jobs in Massachusetts in its merger with Seacoast Financial Services Corp.[5]

Even relatively small mergers result in layoffs. For example, the 2003 purchase of Community National Bank by Citizens Financial Group was described as a "purchase that will barely be noticeable on Citizens' balance sheet." Employees were sure to notice, however, because the merger was expected to result in job losses for tellers and other personnel.[6]

The phenomenon is not confined to this state. For example, Cleveland, Ohio was expected to lose hundreds of jobs when Citizens Financial Group purchased Charter One Financial Inc.[7]

The recent merger between Bank of America and FleetBoston appears to be no exception, contrary to the pre-merger promises by those institutions.

- The Boston *Globe* reported that Bank of America would lay off "hundreds of tellers and other branch employees at Fleet banks."[8]
- Subsequently, the *Globe* reported that Bank of America planned to eliminate 4,500 jobs "on top of 12,500 job cuts that the bank initially said it

[5] Talcott, Sasha, Boston *Globe*, "Sovereign will cut 350 jobs – Mass. reductions planned as part of Seacoast deal", Apr. 17, 2004, p. D.1.

[6] Reed, Keith, Boston *Globe*, "Citizens Continues Expansion - $116M Hudson Buy Stretches Bank's Reach Into I-495 Tech Area", Jul 31, 2003, p. C.1

[7] Fitzgerald, Jay, Boston *Herald*, "Merger pauses Citizens growth: 'Perfect deal' means no job losses locally", May 6, 2004, p.45.

[8] Talcott, Sasha, Boston *Globe*, "Hundreds of Fleet layoffs expected: Bank of America set to make cuts today", Aug. 18, 2004, p. A.1.

would eliminate during the merger." The total number of losses at Fleet in Massachusetts alone was estimated at 850.[9]

- Within months of the merger, Bank of America moved "[t]hree units originally slated for" Boston out of the State, and a fourth unit had no significant ties to Massachusetts.[10]

The bottom line is that many full time jobs at Fleet in Massachusetts are becoming part-time jobs, or no jobs at all, at Bank of America.

Bank Mergers Result in Golden Parachutes

While employee layoffs are one constant of bank mergers, spectacular executive payouts are another. It is easy to see one reason bank executives - both those who stay and those whom the merger phases out - like these deals. They are rewarded handsomely. For example:

- Joel Alvord, Shawmut's chief executive, reportedly was to receive a compensation package of more than $2 million when Shawmut was acquired by Fleet Financial Group back in 1995.[11]
- After the merger of FleetBoston and BankBoston in 1999, newspaper reports indicated that Fleet CEO Terrence Murray received $20.2 million and Fleet President Chad Gifford received $15.6 million "in the wake of the acquisition."[12]

[9] Talcott, Sasha, Boston *Globe*, "Bank of America to cut more jobs: Firm: Most trims will come from outside the state", Oct. 8, 2004, p. D.1.

[10] Fitzgerald, Jay, Boston *Herald*, "BofA dangles big carrot: Lewis pledges major, not minor, operation for hub", Sep. 2, 2004, p. 49.

[11] Blanton, Kimberly, Boston *Globe*, "Deal worth $2m to Alvord: Filing discloses projected merger layoff costs," May 2, 1995, p. 35.

[12] Kerber, Ross, Boston *Globe*, "FleetBoston paid executives millions in merger", Mar. 11, 2000, p. A.1.

- The deal between Toronto-Dominion Bank and Banknorth Group is expected to reward eight high-ranking officials at Banknorth with $36 million.[13]
- The Bank of America and Fleet deal also resulted in a great boon for executives. Chad Gifford reportedly received over $17 million in salary, bonuses, stock options and restricted stock right before the merger, although the company said the awards had nothing to do with the merger.[14] Gene McQuade was set to play a major Boston role in the reconfigured Bank of America, but he left in June with a reported $25 million in severance.[15] Another executive who was purported to play a major role in Boston, Brad Warner, left in August with a $20 million package.[16]

The Need to Act

The current approval system for bank mergers does not do an adequate job of eliciting sufficient information on the effect of a proposed merger on employment or on holding banks accountable for pre-merger employment promises. The recent experience with Bank of America and Fleet appears to be a prime example.

In testimony before the Massachusetts Board of Bank Incorporation and before the Federal Reserve Board, officials at Bank of America Corporation and FleetBoston Financial Corporation stated that "we will sustain total employment levels in New

[13] Portsmouth *Herald*, "Banknorth sale could bring millions to execs", Sep. 23, 2004. (at www.seacoastonline.com/news/09232004/business/39202.htm).

[14] Talcott, Sasha, Boston *Globe*, "Fleet awards Gifford $11m - 5 others also get big pay packages", Mar. 3, 2004, p. D.1.

[15] Bunker, Ted, *Boston Magazine*, "Negative Balance", Dec. 2004. (at www.bostonmagazine.com/ArticleDisplay.php?id=469).

[16] Id.

England and will sustain our levels of customer-facing employees."[17] Officials also stated in a letter to Congressman Frank that "Bank of America has also pledged to maintain current employment levels in New England, including all customer facing employees."[18] Regulators took the bank at its word. In its March 2004 opinion approving the merger, the Board of Bank Incorporation cited Bank of America's commitment "that all 'customer facing positions', which is a significant number, will be retained."[19] Five months later, the Bank laid off tellers in Massachusetts and turned full-time jobs into part-time jobs. In advance of the layoffs of tellers and other branch employees, managers reportedly were given a series of talking points. It is significant that the very first question attempts to address the fact that "[employees] were told not to expect impact to customer-facing positions."[20]

It appears as well that Bank of America was unclear in what exactly it meant by its promise to maintain "current" levels of employment in New England. At the Federal Reserve hearing in January, a bank official stated that "a key component of our agreement was the unprecedented commitment ... to maintain Fleet's current employment level in New England."[21] After shareholder approval of the transaction in March, bank officials again reportedly "stressed ... that [it] will retain approximately the

[17] Testimony of Chad Gifford, Federal Reserve Board, Public Hearing Re Application of Bank of America Corporation To Acquire FleetBoston Financial Corporation, Federal Reserve Bank of Boston, Jan. 14, 2004, p. 13. [Gifford Testimony].

[18] "Congressman Barney Frank Protests Cuts Being Made by the Bank of America", Aug. 26, 2004 (at www.house.gov/frank/BofAcuts2004.html).

[19] Board of Bank Incorporation, *Decision Relative to the Petition of Bank of America Corporation, Charlotte, North Carolina, To Acquire FleetBoston Financial Corporation, Boston, Massachusetts*, Mar. 31, 2004.

[20] Talcott, "Hundreds of Fleet layoffs expected", p. A.1.

[21] Gifford Testimony, p. 11.

same number of employees that Fleet has now in New England, or about 21,000."[22] In September, bank officials stated that that number "was likely closer to 20,000 - and that the number probably included a mix of part- and full-time jobs, rather than the total full-time equivalent number."[23] The officials indicated that the real number of full time employees was only 17,900.[24]

Federal law currently provides little recourse for regulators or communities to whom these statements have been made. We should therefore expect that forward-thinking statements about employment levels will continue to be offered by banks when seeking regulatory approval. Indeed, in September 2004, officials at Banknorth, when describing the proposed merger with Toronto-Dominion, stated that they would cut no jobs: "We're not parsing words. We're not wordsmithing. Zero."[25]

Bank mergers like those discussed above, with the attendant layoffs and executive bonuses, will continue unabated. In fact, many experts expect merger activity to increase.[26] And the acquiring banks are increasingly coming from outside the country. For example, Toronto-Dominion is reaching into the United States in an attempt to acquire Banknorth. The public comment period set by the Federal Reserve ended just last week. Even before the acquisition has been approved, bank officials have indicated that Toronto-Dominion will continue its foray into the American market and is targeting banks in New York, New Jersey and Pennsylvania for future takeovers.[27] Similarly, the

[22] Fitzgerald, Jay, "Bank of America, Fleet shareholders OK deal", Mar. 18, 2004, p. .

[23] Fitzgerald, "BofA dangles big carrot," p. 49.

[24] Id.

[25] Kathleen McLaughlin, Banknorth Promises no layoffs in Mass., N.H.", Sep. 7, 2004.

[26] Fogarty, Thomas A., USA Today, "Bank of America, Fleet would create No. 2 bank", Oct. 27, 2003.

[27] Boston *Globe*, "Toronto-Dominion plans more US deals", Sep. 29, 2004.

Royal Bank of Scotland, through its North American unit Citizens Bank, has recently purchased Charter One Financial. Analysts expect RBS and other European banks to continue buying bank properties in the United States as part of "an extended US shopping spree."[28]

We know that bank executives will continue to propose and attempt to close more mergers. We also know that the current system for vetting the impact of a merger on a local community is not working. Now is the time for this Committee to act.

The Board of Bank Incorporation in Massachusetts

Here in Massachusetts, we have an entity called the Board of Bank Incorporation, consisting of the Commissioner of the Division of Banks, the State Treasurer, and the Commissioner of the Department of Revenue. The Board must approve a bank merger in this state. One of the factors that the Board considers in the approval process is whether a merger will promote "public convenience and advantage."[29] Among the many factors going into this test is the existence, or lack thereof, of "job creation plans." The statute does not explicitly address job loss, although the BBI will occasionally refer to this factor in its decisions.

The BBI's power and authority are dwarfed, necessarily with respect to these mega-mergers that affect many states, by the approval powers of the Federal Reserve under the Bank Holding Company Act. But it does have some power within the state.

The BBI needs additional authority. In addition to explicitly requiring an analysis of job losses triggered by any proposed merger, the Board should be given increased

[28] European Banker, "Across the pond – Europe's banks make waves", May 2004, EB226. (at www.lafferty.com/newsletter_article_home.php?id=2&issueid=460&articleid=7030#).

[29] Mass. Gen. L. c. 167A, §4.

enforcement authority if a bank does not live up to its promises post-merger. As a matter of state law, I and other members are considering empowering the BBI to give it the authority to ensure that promises made are promises kept. I know my co-chair on the State Committee on Banks and Banking has filed a bill for the next legislative session, and I look forward to working with him and the other members of the Massachusetts Legislature to ensure we give the Board the state authority necessary to protect employment in Massachusetts.

Federal Law and Suggested Changes Relative to Bank Mergers

From a regulatory standpoint, I find it troubling that, apart from a cursory mention summarizing public comments, the issues of layoffs, job creation and employment did not factor in the 58 page order from the Federal Reserve Board approving the merger of Bank of America Corporation and FleetBoston Financial Corporation. While it is troubling, it is not surprising, because the Bank Holding Company Act does not require that employment be part of the Federal Reserve Board's calculation.[30] I believe it should.

Under Federal law, the Board, in determining whether to approve a proposed merger, is to consider seven factors including: (1) competitive factors, including the "convenience and needs of the community to be served"; (2) financial and managerial resources and future prospects of the company or companies and the banks; (3) supervisory factors; (4) deposit concentration limits; (5) the effectiveness of the company or companies in combating money laundering; (6) a consideration of the institution's capitalization and the transaction's compliance with state age laws, if applicable; and (7)

[30] See, e.g., Federal Reserve System, Order Approving the Acquisition of a Bank Holding Company, North Fork Bancorporation, Jul. 20, 2004, p. 7, n.15. (at www.federalreserve.gov/boarddocs/press/orders/2004/20040720/attachment.pdf).

the institution's performance under the Community Reinvestment Act.[31] I believe that Federal law should require that the decision on whether or not to approve a bank merger consider the short-term and long-term impact on employment in the affected communities. I know that Congressman Frank has proposed that the Bank Holding Company Act consider the effect of a merger on local employment. It is one of the reasons we are here today.

I would, in particular, urge the Committee to adopt a meaningful measuring stick that will allow the Committee, or regulators at the Federal Reserve, to assess a bank's compliance with the promises it makes when it seeks to have the merger approved. I believe one of the problems arising out of the merger between Fleet and Bank of America was the vague numbers and promises provided by those entities. When they promised to maintain levels of employment in New England, were they talking 21,000, or was it "closer to 20,000," or did they really mean what they say now: 17,900. Banks should provide regulatory authorities with specific and detailed employment, hiring and layoff figures so that regulators can determine whether or not the banks are living up to their commitments. I also would urge the Committee to amend Federal law to ensure that an institution's non-compliance with its promises would, at the very least, prevent future mergers proposed by the same institution.

Thank you again for the opportunity to testify. I stand ready to assist you in any way.

---

[31] 12 U.S.C. §1842.

Testimony of Representative John F. Quinn

**Committee on Financial Services hearing on
"Banks, Mergers, and the Affected Communities."
Tuesday, December 14, 2004
Federal Reserve Bank of Boston
600 Atlantic Avenue
Boston, Massachusetts**

A. INTRODUCTION

For the record, my name is Representative John F. Quinn and I currently serve as House Chairman to the Joint Committee on Banks and Banking in the Massachusetts Legislature. First, I wish to thank Chairman Oxley, Congressman Frank and members of the Committee for giving me the opportunity to speak on this important matter.

B. WAVE OF BANK MERGERS

Over the last few years, several waves of bank mergers have washed over this region and many venerable banking institutions have disappeared in the last decade. Here in Massachusetts we are all too familiar with bank mergers and the impact that they have. And, while some may point to streamlined banking, greater efficiency, and lower costs as a benefit of such mergers, the true cost often comes in job losses and economic injury to local communities.

Unlike a retail store, a bank can and does breathe life into an entire community. Moreover, a long-standing banking institution becomes part of the fabric of a community like no other entity. So, it is understandable that

the loss of such an institution as a result of a merger can and often does have an enormous impact on a community.

Recent merger transactions have shown that many times communities are not prepared for a merger's full consequences. Much of this may be due to the fact that merging parties are not obligated to fully disclose their post-merger plans in order to gain regulatory approval. As a result, job losses and other negative impacts can come as a surprise.

C. MERGER APPROVALS IN MASSACHUSETTS

To guard against a detrimental impact that might result from a proposed merger, Massachusetts state law requires prior approval for all bank mergers similar to federal law. In many cases, the Commissioner of Banks *alone* may grant approval for a merger. However, in a merger involving a bank holding company, approval must come from the state Board of Bank Incorporation (known as the "BBI") after a public hearing.

The "BBI" is a 3-member panel consisting of the Commissioner of Banks, the Commissioner of Revenue, and the state Treasurer.

Under current state law, to approve such bank-holding company merger, the BBI is required to determine two things:

1. whether or not competition among banking institutions will be unreasonably affected, and
2. whether public convenience and advantage will be promoted.

In making such a determination, the BBI, is required to consider a showing of "net new benefits". "Net new benefits" is defined in the statute means "initial capital investments, job creation plans, consumer and business services, [and] commitments to maintain and open branch offices within a bank's delineated local community."

D. CURRENT ISSUES

Over the last several years, some mergers approved by the Board under the criteria set out in the statute have had certain negative consequences on communities served by the *target* bank. This was true with the acquisition by Sovereign Bancorp of Seacoast Financial which resulted in substantial job loss in southeastern Massachusetts and especially greater New Bedford. Another example was the Bank of America acquisition of Fleet Financial, in which short-term reductions in bank personnel was part of the outcome. How is it that, despite a public hearing and testimony by the petitioners, that neither the Board nor the public was prepared for the job reductions and/or branch closings that followed approval of these mergers? The answer to this question is that the extent of these potential job reductions was not spelled out before approval was granted.

Part of the blame lies with state law in that it does not now specifically require petitioners to include projected post-merger reductions in employment that might be planned. This is unfair to consumers and communities alike and should be rectified.

It is my hope that, as a result of these hearings and future discussions with all interested parties, the approval process both at the state and federal level can be tightened and that complete disclosure will be required of the petitioning parties.

I have recently filed a comprehensive bill for the upcoming session in the Massachusetts Legislature which would tighten-up the approval process. Some of these same concepts may be appropriate to incorporate into federal law as well.

The legislation put forth addresses the following four issues:

- add the state Attorney General and a member of the public appointed by the Governor to the Board.
- require that all testimony before the BBI be under oath and subject to perjury laws.
- require the petitioning bank to file a statement containing information on projected employment levels for 1, 3, and 5 years after the merger including information on anticipated branch closings as well as job losses.
- would require a petitioning bank to make 1% of its assets available for call by the *Massachusetts Development Financing Agency* for a 10-year period.

Two components of this legislation that this Committee might consider enacting on the federal level would be to require projected employment levels of one, three and five-year periods to be filed by the petitioning bank prior to approval of the merger. Secondly, the requirement

of an economic development exit fee to be paid to help minimize the negative impact of the merger on smaller communities.

One of the most detrimental effects of these mergers is the resulting job loss particularly of the back office personnel. These jobs are oftentimes the lowest paying jobs. Congressman Frank can certainly attest to the negative consequences of nearly 300 jobs lost in the Greater New Bedford area as a result of the Sovereign-Seacoast merger; not to mention the short-term job loss and reductions in hours for customer-facing employees resulting from the Bank of America/Fleet merger.

During the merger process the petitioner should be required to disclose the projected job losses for one, three and five year periods. This does not make a mandatory requirement to create jobs but rather to make a public disclosure of probable job levels so that the state and public can prepare for the impact.

My second proposal which should be considered by this Committee is to impose an economic development exit fee equivalent to a percentage of the petitioner's assets be paid by the acquiring bank.

When companies enter into a region and are expected to have a negative impact on traffic or the environment, there are often mitigating payments or corrective actions required that are paid for by the companies. Why can't this same concept be applied to the banking industry as well? National banks receive many benefits from the federal government and thus

should not be allowed to exit or enter marketplaces and leave a swath of economic devastation in their wake.

Such exit fees are not without precedent. Currently under Massachusetts state law the BBI is precluded from approving bank-holding company mergers unless the acquiring party has made arrangements such that an amount equal to 1% of its assets in the Commonwealth is made available for ten years to Massachusetts Housing Partnership Fund for the purpose of financing the Partnership's affordable housing efforts. This requirement has had a tremendous impact on the affordable housing market and it certainly has not slowed the desire to enter the Massachusetts' banking marketplace through acquisitions of Massachusetts banks as we can see by the recent vigorous merger activity. This same model could be extended to economic development projects in an attempt to minimize the negative consequences of mergers and in particular the loss of jobs.

E. CONCLUSION

In conclusion, it is clear that bank mergers have a unique impact on local communities as well as the entire region. The distinctive character of a banking institution requires that its potential loss due to a merger be given careful consideration. Current state laws governing the approval of a merger need to be updated to provide for greater disclosure of the merger's immediate impact, additional information from the parties on their future plans, and added protection for communities adversely affected by the merger. I believe that similar added protections at the Federal level may be appropriate as well.

As we continue to study and discuss the merger process on both the state and federal level, I hope that we can come to a resolution that works for the bank regulators, the banking industry, and all consumers. I look forward to working with Chairman Oxley, Congressman Frank, and Commissioner Antonakes as we strive to address this important issue.

That concludes my remarks. Thank you for your time.

Respectfully Submitted:

Representative John F. Quinn, House Chairman
Joint Committee on Banks & Banking
Massachusetts General Court
Massachusetts State House - Room 42
Boston, Massachusetts 02133
(617) 722-2370

LISC

Testimony of Mathew Thall
Senior Program Director
Boston Local Initiatives Support Corporation

Committee on Financial Services
U.S. House of Representatives

December 14, 2004

My name is Mathew Thall. I am the Senior Program Director of the Boston office of the Local Initiatives Support Corporation, or LISC. I have held that position for the last 13 years. Previously I was the Executive Director of the Fenway Community Development Corp. in Boston for ten years. I have also worked for the Cambridge Housing Authority, the Boston Housing Court and HUD during my 30-year career in housing and community development

LISC is the largest nonprofit community development support organization in the United States. Since 1980 we have invested nearly $5 billion in 2,400 nonprofit low-income community development corporations (CDCs) through 34 offices nationwide and a rural development program reaching 37 states. This investment has financed 147,000 affordable homes and some 22 million square feet of neighborhood retail, community facilities and educational space in low income communities. Here in Greater Boston, LISC has invested over $87 million, which has leveraged about $715 million in other private and public financing of over 6,000 homes and 1 million square feet of neighborhood commercial and community facility space. LISC has been able to do this by raising low-interest loans, equity investments, and grants, predominately from private sector institutions.

LISC does a good deal more than finance community development projects. We build the organizational capacity of community-based non-profits by providing operating support and technical assistance. We fund neighborhood revitalization programs that cannot be financed with loans. We serve as a catalyst for attracting new investors in community development finance and for enlarging the role of community development in urban problem solving. A few examples:

- In Boston, LISC brought together local and national funders along with the United Way to create the first CDC operating support funder collaborative in the country. The phenomenal growth in affordable housing production by the CDCs supported by that collaborative in its first five years persuaded United Way to affiliate nine Greater Boston CDCs, and served as a national model for bringing operating support and technical assistance to CDCs. Over a ten-year period

Boston LISC's 1-4 Family Housing Program helped CDCs acquire some 200 abandoned houses and rehabilitate them for sale to first-time homebuyers. This work stimulated an enormous amount of private investment in the neighborhoods where this blight had existed.

- Our office in Los Angeles has forged an innovative Bridges to Wellness Program, which is developing neighborhood health care facilities, training lower-income residents for jobs in health care, and supporting a health care sector business incubator. LA LISC's Neighborhood Turnaround Initiative successfully completed its first phase in 2002, supporting eight CDCs in seven neighborhoods across the city to bring about comprehensive physical and social changes, in terms of affordable housing production, new community facilities, commercial development, and jobs.

- In Chicago, LISC is leading one of the most ambitious efforts ever to document the impact of community development on neighborhood social and economic health and stability. LISC is now working to extend this methodology at sites around the country.

- Our Winston-Salem office has provided the seed funding and financing to the Goler AME Zion Church to develop a master plan for a $44 million New Town in Town in the Goler Depot neighborhood of the City, with the first projects in that plan now underway with LISC's help.

I can say unequivocally that LISC's work would not have been possible without the Community Reinvestment Act. CRA made it possible for LISC to develop a strong relationship with many banks, in Boston and nationwide. As the banking industry evolves, a strong CRA remains essential to keep those relationships—and capital – in place for community development.

CRA has been the centerpiece of a remarkably successful system of partnerships among government, the private sector, and low-income communities. Over the past 25 years, this system has grown to include a web of interlocking federal policies, such as Low Income Housing Tax Credits, CDBG and HOME block grants, HOPE VI, McKinney-Vento homeless housing, and New Markets Tax Credits. CRA stands behind the financing of housing where tenants use many Section 8 Housing Choice Vouchers, and it is fostering the reinvention of public housing. And states and localities have added their own resources to such efforts. This system of partnerships has succeeded because it is flexible, market-oriented, and responsive to local communities. I hope members of the Committee can find an hour or two to tour Boston's neighborhoods and see first-hand how these partnerships are transforming slums into vibrant communities where families of all income levels grow strong and businesses prosper. It is challenging but exciting work in the best tradition of American idealism and pragmatism.

But now these partnerships are in jeopardy. LISC is deeply concerned that a series of proposals from the Office of Thrift Supervision and FDIC would begin to dismantle CRA, and the public-private partnerships that CRA has forged.

- OTS has already reduced its oversight of mid-sized thrifts with assets between $250 million and $1 billion.

- The FDIC has proposed to do the same for the banks it supervises, as well as to grant CRA credit for rural community development activities that do not serve low-income people or places.

- Now the OTS is considering letting institutions ignore investments and services under CRA.

It is especially disturbing that the OTS and FDIC have acted on their own, without coordination with the Federal Reserve Board and the Comptroller of the Currency, discarding over 25 years of joint policy making on CRA. Fragmented regulatory policies are not just confusing; they also invite a race to the bottom as banks switch charters to seek the most lenient regulation, and regulators compete to offer it. We fear that other destructive proposals may follow, until CRA loses all significance. Struggling communities would suffer in many ways.

I have attached a copy of an op-ed article by LISC's Chairman, Robert Rubin, the former Secretary of the Treasury, and our President, Michael Rubinger, which was published by the *New York Times* on December 4, 2004. The article lays out a compelling case for keeping CRA strong. I request that it be included in today's hearing record.

The Committee has invited me to comment on Bank of America's performance to date on commitments that it made in connection with the merger with Fleet/Boston. First, I should say that Boston LISC's experience with Bank of America *per se* is still young. Bank of America has been a very strong supporter of LISC prior to this merger. I refer the Committee to the testimony that Michael Rubinger gave to the Federal Reserve earlier this year on the nature of LISC's relationship with Bank of America. Bank of America has been a generous donor to local LISC programs, and often the leading donor. Bank of America representatives have served on the Local Advisory Committees that function as LISC's local boards. Finally, Bank of America has directly financed and invested in CDC projects that have been "seasoned" by LISC investments.

While Boston LISC is still building its direct experience with Bank of America, we have had many years experience with its "legacy" institutions: Fleet/Boston, BankBoston, Shawmut Bank, and Bay Bank, to name a few. Fleet/Boston has been Boston LISC's leading corporate supporter in the past five years. Several of Fleet's staff served on the Boston LISC Advisory Board and its committees. LISC has done a tremendous amount of lending side-by-side with Fleet in recent years. We have not only provided the pre-development loans to CDCs needed to get their projects ready to utilize construction financing from Fleet/Boston, but have remained in a number of signature projects where

Fleet has been the senior or lead lender. The Spire Graphics plant in Dorchester, the former Woolworths Building in Dudley Square, and the Lithgow Building in Codman Square are a few notable examples. LISC would not remain a permanent lender in a subordinate position to a lender that we did not trust and hold in high regard.

Bank of America has honored and in some ways strengthened the relationship we had with Fleet since the merger was approved. We are partnering with the Bank and the City of Boston on an initiative to address comprehensively the community development needs of the Bowdoin Geneva section of Boston's Dorchester neighborhood, a community that has sometimes been overwhelmed by the consequences of poverty and crime. This is an initiative that was proposed by the Bank, not LISC or the City. Boston LISC is about to enter the final year of its four-year Campaign for Communities, which seeks to raise and invest $33 million in Greater Boston's neighborhoods, towns and cities. Fleet/Boston was not only the major corporate donor to the Campaign but also agreed to have a senior person serve as our Campaign co-chair. Since the merger occurred, Bank of America has not only re-affirmed the Fleet pledge to the Boston Campaign but also reaffirmed its commitment to chairing the LISC Campaign. We are delighted that Anne Finuciane has agreed to take the leadership reins of this Campaign in its final critical year.

LISC Vice President for Development has provided me with information about grant commitments that Bank of America has made to LISC since the merger with FleetBoston was finalized. We are quite certain that LISC sites that are in the former Fleet footprint will receive at least as much grant support from Bank of America if not slightly more, in the next three years.

In terms of concrete, measurable commitments I believe that the merger of Bank of America and Fleet/Boston has definitely made substantially more resources available for community development. As part of the merger discussions, Bank of America agreed to convert a portion of a statutorily mandated *loan* to the Massachusetts Housing Partnership into an $18 million *grant*. There is no statutory or regulatory basis for securing this type of grant from an acquiring bank under Massachusetts law. Certainly our very talented and sophisticated housing advocates deserve credit for bringing about this grant, which I understand has now been converted to a legally binding obligation. However, Bank of America was under no legal requirement to make this grant. As far as I know an $18 million grant by a bank to a state agency for housing and community development projects and programs is unprecedented in this country. $18 million for project financing, program and organizational support and technical assistance to non-profits will make a tremendous difference for a long time to come in supporting our collective efforts to develop more affordable housing and stronger communities. I congratulate Bank of America for this financial pledge I hope that the Bank will be properly recognized for this commitment and will be consulted on how these funds can be most effectively deployed in communities across the Commonwealth of Massachusetts.

Thank you for the opportunity to testify today.

THE NEW YORK TIMES OP-ED SATURDAY, DECEMBER 4, 2004

Don't Let Banks Turn Their Backs on the Poor

By Robert E. Rubin and Michael Rubinger

FOR more than 25 years, a little known federal law has helped low-income communities get the bank loans and services they need to rebuild their neighborhoods. But that law, the Community Reinvestment Act, is being threatened by proposals from two federal bank regulators.

Congress passed the Community Reinvestment Act in 1977 as a response to the practice of redlining — the refusal by banks to extend loans or banking services in poor, and predominantly minority, urban areas. Today, the law is equally important to distressed rural communities. In low-income areas throughout the United States, this law — which encourages banks to serve low-income communities in their markets — has increased homeownership and small-business growth, enabling the revitalization of entire communities. Under the act, regulators consider reinvestment performance when a bank seeks permission to expand or merge. Since its inception, the law has prompted banks to channel more than $1 trillion into reinvestment projects — without requiring a single dollar of Congressional spending.

Rules on lending in low-income areas shouldn't be eased.

Now, the Federal Deposit Insurance Corporation, one of four agencies responsible for enforcing the act, is proposing to relax enforcement of the law at almost 1,000 banks. The Federal Office of Thrift Supervision, another overseer of the law, has already finalized a similar proposal for savings and loans institutions. These new rules may be the first step in an effort — long pursued by some in Congress — to dismantle the act piece by piece.

Under the law now, banks with assets of more than $250 million undergo full periodic reviews of their lending, services and investments in low-income communities. At smaller banks, examiners limit their review to lending practices only.

The F.D.I.C. proposal would raise the asset level for this limited scrutiny to $1 billion, making many fewer banks fully accountable. The F.D.I.C. claims that the new rule is aimed at reducing the regulatory burden on banks. The Federal Reserve Board and the Comptroller of the Currency, the law's other two enforcers, have not proposed new rules.

But there is a real question as to whether changing the rule would result in any meaningful savings for banks. And communities will suffer if enforcement is curtailed, because the act has been working. A Treasury report presented in 2000 to the Congress concludes that mortgage lending to low- and moderate-income borrowers and areas rose substantially in the 1990's.

The capital made available under the act has helped to rebuild entire communities — in rural Maine as well as in the South Bronx. At the same time, banks have learned that lending, investing and providing basic services in low-income communities can be good business. A 2002 Harvard University study found that the law significantly changed the way banks do business in and relate to the communities they serve. As a result, the report stated, "The lower-income mortgage market has become demonstrably mainstream and more competitive over the last decade." The Federal Reserve Board, too, has deemed this lending to be safe and profitable.

Low-income families can be part of the mainstream economy only if they can buy homes, start businesses and live in stable, vibrant communities. If the United States is to compete globally, we need everyone to contribute. In these uncertain economic times, keeping the Community Reinvestment Act strong is in the interest of all Americans.

Robert E. Rubin, a director of Citigroup who was Treasury secretary from 1995 to 1999, is the chairman and Michael Rubinger is the president of the Local Initiatives Support Corporation, a community development support group.

Questions Submitted by Rep. Barney Frank (D-MA) for December 14, 2004 Boston Field Hearing

Housing

.Please give a detailed definition of the affordable housing category listed in the strategic plan, listing each type of loan or investment that will be used to count toward the goal and the maximum and minimum loan size that will count toward the $4.1 billion goal.

.Is BoA willing to report to the public the level of lending/investment in each of these sub areas on an annual basis by state at the end of each year?

.Please list the current BofA affordable housing product mix, including mortgages and financing products that will be available in MA.

Small Business

.Please give a detailed definition of the category, listing the loan and investment types and maximum and minimum loan size that will count toward the $1.3 billion goal.

.Is BoA willing to report to the public the level of lending/investment in each of these sub areas on an annual basis by state at the end of each year?

.Please list the current BofA small business loans products that will be available in MA.

Consumer

.Please give a detailed definition of the category, listing the types of products (i.e., credit cards, consumer loans, auto loans) that will count toward the $2.65 billion goal.

.Is BofA willing to report to the public the level of lending/investment in each of these sub areas on an annual basis by state at the end of each year?

Economic Development

.Please give a detailed definition of the category, listing the types of products and loan types that will count toward the $490 million.

.Is BoA willing to report to the public the level of lending/investment in each of these sub areas on an annual basis by state at the end of each year?

Philanthropy

.What is the regional (Fleet legacy footprint) goal on philanthropic giving? Is it $28 million, as stated previously?

.What is the geographic definition of the Fleet footprint? Does it include New England? New York, Pennsylvania?

.Please provide the historic data for Fleet philanthropy goal levels for MA and the Fleet Northeast footprint in 2001, 2002, 2003 and 2004.

.Please provide a list of all philanthropic community development related grants in MA for 2001 – 2004.

Procurement/Diversity

.Is BoA willing to report at the end of each year employment diversity by level of employment on a state by state basis?

.Is BoA willing to report diversity procurement on a state by state basis at the end of each year?

Committee on Financial Services Field Hearing Response

There were a number of questions at the Financial Services Committee field hearing related to Bank of America's 10-year, $750 billion community development goal, and our philanthropic and Multicultural Supplier Diversity (MSD) performance in the Northeast region. Included below is additional information on these topics.

Breakout of 10-year, $750B Goal Sub-categories

The nationwide $750 billion community development effort will focus on four key areas of lending and investment to primarily low- and moderate-income (LMI) communities in the U.S., including affordable housing, small business/small farm loans, consumer loans, and economic development. The goal will entail a corporate-wide, cross-functional effort to drive, on average, more than *$205 million in community development activity every day.* The targeted goal and contributing activities for the four category areas are:

1. Affordable Housing: $500 billion

The bank will address and help combat the nation's critical need for quality, affordable housing by providing mortgage loans to:

- Borrowers in low- and moderate-income (LMI) areas,
- Borrowers with incomes below the area median income,
- Minority borrowers, regardless of income, and
- Borrowers with incomes up to 120% of area median income in high-cost markets.

The bank will also provide financing solutions (pre-development, construction, term finance, and/or equity) for multi-family and single-family housing serving families below 100% of median income and/or in LMI census tracts. Military, student, and work force housing in high-cost areas will also be included.

Mortgage and financing products available in Massachusetts include:

- Neighborhood Advantage Credit Flex™
- Neighborhood Advantage Zero Down™
- Neighborhood Champions™
- Community Commitment
- ACORN
- Agency 97
- Federal Housing Administration
- Neighborhood Assistance Corporation of America (NACA)
- Soft Second Loan Program
- Veteran's Administration

Affordable Housing Construction Loans and Letters of Credit

- Acquisition and rehabilitation or new construction loans
- Bank of America proprietary products: Community Impact Loan for construction-to-term
- In addition, Bank of America invests in Fannie Mae and Freddie Mac executions; Low-Income Housing Tax Credit Investments (LIHTC); Historic Tax Credit Investments; New Markets Tax Credit Investments (FHLB Community Investment Products, such as AHP).

2. Small Business/Small Farm Loans: $125 billion
Small business and small farms are the economic engine of local communities. The bank is committed to maintaining its position as #1 small business lender in the U.S., including in under-served markets. The bank will provide:

- small business/small farm conventional loans of $1 million or less,
- up to $5 million to small businesses/small farms in LMI census tracts, and
- government-related and government-guaranteed loans/lines of credit for all amounts.

The bank will also invest in small business investment companies (SBICs), minority-business venture capital funds, as well as directly in minority-owned businesses. Products available in Massachusetts include:

- Small Business Administration (SBA) Loan
- Small Business Credit Express Line of Credit
- Small Business Line of Credit
- Small Business Cash Reserve
- Small Business Credit Express Term Loan
- Small Business Term Loan
- Commercial Mortgage
- Small Business Leasing

3. Consumer Loans: $75 billion
The bank will offer home-related loans/lines of credit to borrowers with incomes below the area median, and to borrowers with incomes up to 120% of area median in high-cost markets. The bank will also offer other consumer (auto/personal) loans/lines to borrowers with incomes less than 80% of the area median. This category also includes student loans, regardless of income. Credit card borrowings are not included in the goal.

4. Economic Development: $50 billion
The bank will make loans, investments and grants, which promote economic development, such as community development loans, commercial loans in low-income geographies, and investments in CDFIs. This category also includes grants, contributions and loans to tax-exempt and/or non-profit entities in support of community development, economic development and community services to LMI populations.

Community Goal Reporting

On the issue of reporting on our performance toward meeting our 10-year, $750 billion community goal, our regular annual reporting on the bank's previous $350 billion community development goal is a demonstration of our record of offering more extensive local public reporting than any financial institution.

As was the case for the previous goal, we will report on the $750 billion results on an annual basis, and will do so at the national, state, and local market levels. For example, in the former Fleet footprint, in addition to state data, we will provide results in top local markets, including Boston, MA (Norfolk, Plymouth, and Suffolk counties); Hartford, CT; New York City and Long Island, NY; North/Central New Jersey; and Philadelphia, PA. These results will be posted annually to our web site, www.bankofamerica.com. [*Examples of online reporting for state and local markets are attached.*]

The primary channel for local market dialogue will lie in our continued meetings with the numerous community organizations throughout the Northeast. These meetings will facilitate discussion on the effectiveness of our community development programs in meeting our strategic state goals and identify new opportunities in the local markets. Additionally, the bank will convene a National Advisory Council, comprised of approximately 25 community leaders focusing on the four key target areas of the $750 billion goal. The Council will have Northeast representation. We intend to announce the make-up of that group within the next few months.

Bank of America's Philanthropic Commitment in the Northeast

On the issue of maintaining our charitable-giving levels following the merger announcement between Bank of America and FleetBoston Financial, we stated that we would maintain and/or increase our philanthropic support in the Fleet legacy footprint – Maine, New Hampshire, Massachusetts, Rhode Island, Connecticut, New York, New Jersey, and Pennsylvania.

Included below is an overview of FleetBoston's charitable-giving levels from 2001 to 2004. For more detailed information, please visit our web site, which details our local market priorities (many of which include Community/Economic Development), or www.guidestar.org for a detailed listing of our grantmaking activities.

State	2001	2002	2003	2004
Maine	$500,000	$500,000	$400,000	$475,000
New Hampshire	$500,000	$500,000	$400,000	$475,000
Massachusetts	$8,000,000	$7,188,333	$5,686,000	$5,800,000
Connecticut	$2,400,000	$1,900,000	$1,525,000	$1,675,000
Rhode Island	$1,550,000	$1,300,000	$1,040,000	$1,100,000
New York	$4,340,000	$3,250,000	$2,620,000	$3,225,000
New Jersey	$3,200,000	$2,500,000	$2,000,000	$3,800,000
Pennsylvania	$460,000	$460,000	$400,000	$650,000
Additional Corporate investments	$4,500,000	$5,000,000	$4,294,091	$5,500,000
Total	**$25,453,000**	**$22,598,333**	**$18,365,091**	**$22,700,000**

Reporting out on Bank of America's Procurement and Multicultural Supplier Diversity Performance

Bank of America currently provides state-by-state analysis of our multicultural supplier diversity spending on an as-requested basis. Given the volume of business, however, this information is typically not available until the end of the first quarter of each year.

Reporting out on Bank of America's Employment Diversity Performance

At this time, Bank of America's diversity performance is reported annually in accordance with the federal government's Equal Employment Opportunity (EEO) governance structure, which requires us to provide minority and women employment levels by job group level. This report provides a corporate-level, point-in-time picture of our diversity employment levels. We post this information annually on our web site – www.bankofamerica.com – using the latest data reviewed by the U.S. Department of Labor's Employment Standards Administration's Office of Federal Contract Compliance Programs.

Bank of America has been well known for its progressive workplace practices that support diversity and inclusion and has received numerous awards and recognition, including:

- #1 company in America for multicultural business opportunities, based on an online survey conducted by DiversityBusiness.com in which more than 300,000 business owners voted. (January 2005)
- One of *Working Mother* magazine's "100 Best Companies for Working Mothers." (October 2004)
- One of *Latina Style* magazine's "50 Best Companies for Hispanic Women." (August 2004)
- One of *Fortune* magazine's "50 Best Companies for Minorities." (July 2004)
- One of *DiversityInc.*'s "Top 50 Companies for Diversity." (April 2004)
- One of *Minority Engineer* magazine's "Top 50 Employers." (April 2004)
- 8th in *Equal Opportunity* magazine's "Top 50 Companies" listing. (April 2004)
- 3rd in the "2004 Best of the Best Corporate Awards for Diversity and Women," published by Diversity Best Practices and the Business Women's Network. (April 2004)

Editorial

LENDING WISDOM

430 words
20 January 2004
The Boston Globe
THIRD
A.14
English

THE SALE of FleetBoston Financial Corp. to **Bank of America** Corp. will be determined in part by whether the Federal Reserve Bank has confidence in the new entity's commitment to fair lending practices in low-income and minority neighborhoods. The outcome will likely be positive for **Bank of America**, especially given its recent pledge to provide $750 billion nationwide for community economic development over the next decade.

Bank of America enjoys an outstanding rating for adherence to the federal Community Reinvestment Act, which measures a bank's services in neighborhoods where it takes deposits. But the quantity of community reinvestment mortgages does not tell the entire story. The quality of those loans is critical.

Bank of America will serve the Boston area best if it emulates the community reinvestment practices of BankBoston, which merged with Fleet in 1999. Fleet at the time was the more aggressive mortgage lender to low-income families. But its delinquency rate for those products was roughly 7 percent compared with just 2 or 3 percent in its regular portfolio. Such delinquencies can lead to foreclosures and abandoned properties, major destabilizers of low- income neighborhoods. BankBoston was known to screen its clients more carefully, resulting in a 3 percent delinquency rate on inner- city home loans that was almost identical to its general portfolio.

A **Bank of America** spokeswoman, Eloise Hale, says the North Carolina-based bank does not disclose delinquency rates in its home loan portfolios. The lack of such ready information raises questions about **Bank of America**'s commitment to transparency. Community development activists in the Boston area need to know whether **Bank of America** sees the big picture beyond the rating scale of the Community Reinvestment Act.

Bank of America already does a lot of business with the Boston- based nonprofit Neighborhood Assistance Corporation of America. The bank recently pledged to funnel $6 billion in home mortgage loans to NACA, which is highly effective in confronting discriminatory lending practices. But the nonprofit's preferred loan product - requiring no down payment, no closing costs, no fee, and no perfect credit - carries with it the danger of delinquency. And NACA, like its **Bank of America** benefactor, is loath to disclose delinquency rates.

Bank of America is making good-faith efforts locally, including an agreement to maintain Fleet's current investment level in the Massachusetts Housing Investment Corporation, a consortium of banks and investors dedicated to financing affordable housing. But less is known about its reinvestment strategy in Massachusetts, including small business lending. More sunshine is needed from the North Carolina megabank.

Document BSTNGB0020040120e01k0003n

boston.com THIS STORY HAS BEEN FORMATTED FOR EASY PRINTING

Bank of America to add 300 jobs

The Boston Globe

Move part of plan to shift unit to Hub

By Sasha Talcott, Globe Staff | December 11, 2004

Bank of America Corp. said yesterday it will bring 300 more jobs to Boston as part of its wealth management unit.

The decision comes after the bank agreed to relocate 100 executives from that unit to Boston. The bank is in the process of moving the wealth management unit, one of the bank's four main divisions, to the city.

In the past several weeks, the division's top executives have moved from scattered locations around the country and settled into offices at FleetBoston Financial Corp.'s old downtown headquarters. Bank of America acquired Fleet, New England's largest bank, for $48 billion in the spring.

"This further solidifies Boston as a major center of business activity for Bank of America," said James Mahoney, Bank of America's director of public policy. "Wealth and investment management is one of our four major lines of business and is particularly suited to be located in Boston, which is one of the world's leading money management centers."

Bank of America has pledged to maintain the same number of employees in New England that Fleet had before the merger. The bank this year eliminated about 2,900 positions across the region as it consolidated operations, but it has added back about 1,100, including call center jobs in Rhode Island and executive jobs in Boston.

The bank plans to add back the rest of the 1,800 jobs over the next two years, Mahoney said. Possible ways to add spots include new call centers or processing centers, more expansion of the bank's wealth management division, or moving one or two of the bank's smaller lines of business to Boston.

The bid to relocate the wealth management unit comes after the bank faced intense criticism this year from Massachusetts politicians over layoffs and other post-merger changes. Things got so heated in the fall that the chief executive, Kenneth D. Lewis, flew to Boston for a round of meetings with Massachusetts politicians to reassure them that the bank remained committed to the region.

A few weeks later, Bank of America said it would move its wealth management division to Boston under the leadership of a former Fleet executive, Brian Moynihan. Moynihan was already based in Boston, but many of the division's other leaders were in New York, Charlotte, N.C., and St. Louis. The consolidation will bring most of them to Boston.

The wealth management division includes mutual funds, the private bank for wealthy clients, "premier banking" for the well off, and its brokerage business. It has about 13,000 employees nationally, of which about 1,400 now are based in Boston.

The addition of 300 jobs to the Boston office means more of the division's management and support staff will move here, said Mahoney, the public policy director.

The decision to bring more jobs comes days before US Representative Barney Frank plans to hold a congressional hearing in Boston to talk about bank mergers. Bank of America executives plan to testify at the hearing Tuesday about their merger with Fleet, particularly their community development efforts, their philanthropy, and employment. "We feel we have a very good story to tell," Mahoney said.

Frank, a vocal critic of the merger, said yesterday the 300 jobs are a "good sign" for Boston.

"I was obviously critical in September, but this is the third announcement of new jobs for the region," said Frank, a Newton Democrat. "I was very pleased."

Sasha Talcott can be reached at stalcott@globe.com. ■

factiva

Dow Jones & Reuters

Business

BILL TIGHTENS BANK MERGER RULES IN STATE

Sasha Talcott, Globe Staff
700 words
4 December 2004
The Boston Globe
THIRD
D1
English

Massachusetts bank executives would have to provide detailed estimates of layoffs resulting from proposed mergers and face perjury charges if they lie to state regulators about the deals, under legislation filed by the cochairman of the state's banking committee this week.

The move comes after months of controversy over **Bank of America** Corp.'s $48 billion acquisition of New England's largest bank, FleetBoston Financial Corp. **Bank of America** this year laid off about 800 staff members in **Fleet** branches, replacing many with part- timers, despite executives' statements that "customer-facing" positions would be safe.

The North Carolina bank also moved away headquarters for two of the six divisions that it originally vowed to locate in Boston.

The public fight showed that state legislators need to beef up requirements for merging banks, said state Representative John Quinn, Democrat of Dartmouth, who filed the bill. He wants the state's attorney general and a member of the public to sit on the board that approves such deals. His bill also asks merging banks to put 1 percent of their assets in Massachusetts which could add up to millions toward economic development, including loan financing and issuing bonds.

Quinn yesterday accused **Bank of America** of misinforming Massachusetts regulators during public hearings in January on its deal with **Fleet**.

"We all observed some shortcomings in the approval process in the **Bank of America** case, particularly with the employment levels," he said. "People were concerned that a lot of the testimony was at least misleading."

But **Bank of America** executives said yesterday the bank had no intention of misleading state regulators and, in fact, is meeting its commitments to New England. **Bank of America** has pledged to maintain the same number of employees in the region about 17,900 that **Fleet** had before the merger.

To meet that commitment, the bank had planned to headquarter the six units in Boston, said the bank's director of public policy, James Mahoney.

But when executives realized that idea would not work, they went "back to the drawing board" and decided to move a massive business line wealth management here instead, Mahoney said.

He also said executives made their comments about branch staffing because the bank did not divest any branches because of the merger, but that executives did not mean their statements to include other subsequent changes.

If Quinn's bill passes, the change to state law is not likely to affect **Bank of America**, which has grown so large that federal rules now prevent it from acquiring any more US banks.

New England's other major banks Citizens Financial Group, Sovereign Bancorp, and Banknorth Group still are looking for acquisitions, so the new rules would have the most impact on them. Representatives from the three banks declined to comment, saying they had not yet had time to review the legislation.

The Massachusetts Bankers Association, an industry trade group, plans to express opposition to parts of the bill, saying it could have a "chilling effect" on mergers in Massachusetts and put banks here at a disadvantage.

"Why should a business entity that's located in Massachusetts be held to a different standard than a business that's located in Vermont or New Hampshire or any other state?" said Kevin Kiley, the group's chief operating officer. "It's important to the vibrancy and vitality of the state's banking system to have a wide degree of flexibility in which to operate."

When Massachusetts banks agree to merge, they generally seek approval from federal regulators and from a three-person state board.

Still, there is disagreement within the industry about how much power the state board members have to regulate large national banks such as **Bank of America**.

Other public officials also are pushing for a more detailed accounting of layoffs during bank mergers. US Representative Barney Frank, Democrat of Newton, publicly has called for a closer look at job loss in the federal approval process, and he plans to hold congressional hearings in Boston this month to assess the **Bank of America** deal.

Sasha Talcott can be reached at stalcott@globe.com.

Document BSTNGB0020041206e0c400008

National/Foreign

MERGERS PINCHING SMALLER NONPROFITS

Sasha Talcott, Globe Staff
1,613 words
21 November 2004
The Boston Globe
THIRD
A1
English

The staff at the Veterans Benefits Clearinghouse knows many of the homeless men and women who roam Boston's streets once served in the armed forces. For years, the small Roxbury nonprofit has helped by finding them jobs.

Yet the veterans group recently had to eliminate its position of job developer and, despite its pleas to corporations in New England and nationwide, has found no funding to restore it.

The agency estimates that it has lost $75,000 in annual corporate funding over the last decade, as Boston's major companies are acquired by larger firms out of state.

"It has been a real struggle these last couple of years," said Ralph Cooper, the group's executive director. "I've had to lay off people. These are the kinds of things that really devastate an agency of our size."

As a wave of consolidation sweeps New England industries, community advocates have long fretted that executives will drop out of the community, quit giving to local charities, and turn their attention to a corporate headquarters hundreds of miles away.

In fact, those fears frequently prove correct, at least in the case of funding the region's smallest nonprofit groups, according to interviews with nonprofit leaders and a review of tax returns of many of the region's dominant companies. The growing consolidation of companies has exacerbated a two-tiered system of nonprofit giving in which, increasingly, the largest, most-well-known nonprofits attract the bulk of the dollars from donors, while smaller groups struggle to stay afloat.

Many of the out-of-state corporations that now dominate the New England landscape still maintain a substantial amount of charitable giving in the region, and some even increase their donations, but they tend to concentrate their money on the most high-profile nonprofits, such as the Museum of Fine Arts and the Boston Symphony Orchestra, rather than smaller groups, where their funds will probably bring far less marketing exposure.

The consolidations in New England's major industries, such as financial services, along with other factors such as a slow economy and cuts in government funding, add up to a fund-raising environment that many nonprofits, especially the smaller groups, describe as the worst they have faced in years. The growing fight for funding has forced more than 600 Massachusetts nonprofits to dissolve in the last several years and even more to trim staff and cut programs.

The competition only has grown fiercer among those looking for funds: the number of nonprofits in Massachusetts has skyrocketed in the last decade, swelling to 40,000 last year from 26,000 in 1993. Those additional groups now are clamoring for funding from the remaining corporations and charitable foundations headquartered in the region, stretching resources thin.

The strain on small nonprofits has come to the forefront in the last year after the acquisitions of two of the region's most generous philanthropic contributors: Canadian insurer Manulife Financial Corp. bought Boston's John Hancock Financial Services Inc., and **Bank of America** Corp. of North Carolina acquired FleetBoston Financial Corp. Both have pledged to maintain at least the same levels of charitable contributions.

At many companies that have merged over the last decade, however, the changes have been particularly striking. MetLife funded nonprofits around the region after it acquired insurer The New England in the mid-1990s. But around 2001 or 2002, it centralized its giving in MetLife's New York headquarters and abruptly stopped funding several of the smaller organizations, including a summer program for urban youth. That group, the Summer Fund, which supports summer camps around the region, has seen its corporate giving plummet 80 percent over the last decade, forcing the organization to scramble for funding from other sources.

A review of the 2003 tax returns from MetLife's charitable foundation showed that the New York insurer gives thousands of dollars to large, well-established nonprofits in Boston and New England, including more than $500,000 to various divisions of Harvard University, $50,000 to the Boston Symphony, and $20,000 to the Isabella Stewart Gardner Museum.

Other prominent companies also have curtailed their giving or changed their funding priorities to exclude many of the region's smaller nonprofit groups. The charitable foundations for Verizon Communications Inc., Hewlett-Packard Co., and Putnam Investments all decreased their giving in the last several years either in Massachusetts or overall, according to the tax returns of their charitable foundations or information on their websites. Acquirers of other Boston institutions simply concentrate their giving closer to home: Mellon Financial Corp., which acquired the investment and management firm the Boston Co., in the mid-1990s, gave about $250,000 to nonprofits in Massachusetts in 2002, compared with about $2.1 million in Pennsylvania, its home state, records from its charitable foundation show.

But many of the companies maintained that a review of their charitable foundations does not fully take into account the extent of their corporate giving, including their employees' volunteer efforts, and said they try to give to smaller groups as well as large ones. A spokeswoman for MetLife said its charitable contributions to Boston have increased "significantly" over the donations of insurer The New England, and its tax returns show that, across the entire country, philanthropy has increased. HP donates computer equipment to nonprofits in addition to its foundation grants, including some for New England nonprofits. Gifts from HP's foundation primarily fund disaster relief, a spokeswoman said.

Several of the companies, including Mellon and Verizon, directly disputed the numbers in listed in their tax returns or on their websites, saying charitable giving has remained the same or increased. A spokesman for Mellon said that when additional sponsorships and grants are taken into account, the company gave about $750,000 to Boston in 2002, three times the $250,000 listed in its tax returns. Putnam said it shifted some of its charitable giving to different departments of the company, which could account for the decrease on its tax returns.

The change in corporate giving stems in large part from a growing realization among bigger companies that philanthropy can aid their marketing efforts, foster good will in a community, and bolster their brands. These firms are making more large and visible gifts to nonprofits, or even naming their own programs. John Hancock, for example, recently created a summer jobs program called John Hancock Scholars.

The smaller nonprofit groups, on the other hand, are far less visible, so companies' gifts are more likely to go unnoticed.

Through the mergers and a lackluster economy, New England's more well-known philanthropies have struggled but ultimately held their own, as several traded on their national reputations to attract funding from out-of-state companies. The Museum of Fine Arts and the Boston Symphony said their corporate giving held steady over the last few years.

"You sponsor something at the Boston Symphony, the Pops, or Tanglewood, and you can reach a lot of people," said Mark Volpe, managing director of the Boston Symphony. "That's frankly the advantage the bigger nonprofits have. It's just the pure numbers."

For smaller groups, it is another story. Many say they have been dismissed without explanation when they apply for funding from out- of-state companies.

"When I speak to people in Dallas, they can't spell Worcester, they can't say Worcester, and they've never heard of a First Night," said Joyce Kressler, executive director of First Night Worcester, a New Year's Eve festival, which has seen funding fluctuate over the last several years. "In those instances, every community has suffered."

Not every corporation is cutting back on Boston philanthropy, including some of those headquartered elsewhere. **Bank of America** has pledged to increase **Fleet**'s charitable giving substantially after the merger, while Sovereign Bancorp and Citizens Financial Group also have increased their donations. Citizens, a Royal Bank of Scotland subsidiary, makes its philanthropic decisions locally and carves out a special subset of its philanthropy for very small nonprofit groups.

In the case of **Bank of America**, it remains unclear whether the extra money will go to community-based nonprofits, or larger, more recognizable groups. **Bank of America** directs much of its grants toward well-known nonprofits, including the Habitat for Humanity, the Junior League, and Boys and Girls Clubs. But the bank does give money to lesser-known nonprofits as well. It also promises more local decision-making about corporate giving, and it has appointed **Fleet**'s former chief executive, Chad Gifford, as chairman of its foundation.

Still, small groups are finding it difficult to adjust to new realities. Though **Bank of America** executives have met with dozens of nonprofit leaders to reiterate their pledge to remain involved in community, the bank created confusion earlier this summer when it mailed literature for its new funding initiative, called Neighborhood Excellence, to New England's nonprofits. The bank intended the program to add to its giving efforts, not take money away, said Anne Finucane, president of the Northeast **Bank of America**.

But several local nonprofits, nervous about the banks' merger, took a look at the notice and assumed it meant **Bank of America** would no longer fund them.

"We were about to send in a new application, but we heard they have this big new initiative," said Greg Zaff, executive director of SquashBusters, a Boston nonprofit that uses squash to teach responsibility and academic skills to urban youth. "We decided after talking to a representative that it didn't necessarily line up that well, so we didn't submit."

Sasha Talcott can be reached at stalcott@globe.com.

Document BSTNGB0020041122e0bl0000c

factiva

Dow Jones & Reuters

Business

BANK OF AMERICA TO CUT MORE JOBS ; FIRM: MOST TRIMS WILL COME FROM OUTSIDE THE STATE

Sasha Talcott Globe Staff

919 words

8 October 2004

The Boston Globe

THIRD

D1

English

Bank of America Corp. said yesterday it will eliminate 4,500 more jobs as it absorbs the operations of FleetBoston Financial Corp.

The decision comes on top of 12,500 job cuts that the bank initially said it would eliminate during the merger. The bank's move drew fire from two Massachusetts lawmakers, who expressed frustration that they had received little notice of the bank's decision and worried that the cuts would wipe out any gains that the bank had promised the state.

Bank of America executives said just 140 of the job cuts will come from Massachusetts spread across business lines but not in the branches bringing the total Fleet job cuts in the state to about 850. They also said the bank is adding jobs: **Bank of America** recently said it would move 100 top executives from the bank's wealth-management division to Boston. As part of that decision, it recently informed 29 Charlotte, N.C., employees who had handled mutual fund administration that their jobs will move here.

"The additional wealth-management positions will offset these near-term reductions," said Alexandra Trower, a bank spokeswoman.

Bank of America has pledged to maintain the same number of employees in New England that Fleet had here before the merger, though it has long said it would cut some jobs and add others. The bank said yesterday its 4,500 job cuts would not affect that promise.

But US Representative Barney Frank, a Newton Democrat, criticized the layoffs yesterday and pledged to grill the bank on its job reductions during a congressional hearing to be held in the Boston area this year. He said he is especially unhappy that **Bank of America** chief executive Kenneth D. Lewis, who traveled to Boston last month to meet with public officials and discuss jobs he would bring to the region, did not disclose that the company was considering additional cuts.

"They said, `It ebbs and flows,' " said Frank. "Well, ebb is way ahead right now."

Yesterday's cuts also reflect **Bank of America**'s push under Lewis's leadership to intensify its focus on creating shareholder value. Well before buying Fleet, **Bank of America** cut back its own operations, including eliminating more than 35,000 jobs. It also outsourced some back office jobs to India, closed a handful of call centers, and reduced its commercial loan business in emerging markets such as Pakistan.

Those and other cost-cutting moves made Lewis a hit on Wall Street right up until a year ago, when **Bank of America** said it would pay $48 billion to buy Fleet. Some analysts at that time lashed out at the bank, calling the deal too expensive.

In the last several months, however, Lewis has made a series of high-profile moves to regain Wall Street's trust, including working without an employment contract, increasing the amount of money the bank plans to save in expenses, and posting substantial gains in new customers throughout the Northeast. As a result, many original critics of the deal now support it.

The bank's disclosure of the layoffs, headlined in a press release "**Bank of America** business model

simplification and merger transition yield additional savings opportunities," comes a week before the bank releases its third-quarter earnings. The bank's stock closed up 18 cents yesterday, at $45.43.

Across **Bank of America**, the 4,500 layoffs fall into three general groups: The bank's mortgage business has slowed substantially as interest rates rise, which means hundreds of job cuts in that area. Additional cuts stem from the Fleet merger and a recent "realignment" of some of the bank's lines of business, where the bank was able to eliminate duplicate staff. The latest round of cuts comes mostly from support staff and does not include employees in the bank's branches.

While **Bank of America** has appeased some critics on Wall Street, several of the bank's recent moves have created an outcry in Massachusetts, where Fleet had been based. **Bank of America** originally said it would headquarter six of the bank's divisions in Boston, but it moved away responsibility for two. The bank also laid off 800 staff members in its Northeast branches despite executives' previous statements that "customer-facing" employees would be safe. The bank said it would create 600 jobs in its branches, though many will be part time.

The layoff announcement yesterday only added fuel to that fire. **Bank of America** had about 181,000 employees around the time it merged with Fleet, though it had pared its head count to 178,000 in recent months.

"I don't think the average **Bank of America** employee right now can feel comfortable that they can make solid financial plans for their families," said US Representative Michael E. Capuano, a Cambridge Democrat.

Other public officials who had been critical of **Bank of America** held their fire yesterday. A spokeswoman for Governor Mitt Romney said his administration will "continue to monitor the situation closely and carefully," and Treasurer Timothy Cahill said the layoffs do not break any of the bank's commitments to the state. State Representative John Quinn, cochairman of the Legislature's Joint Committee on Banks and Banking, said he was concerned but would "wait and see" what happens over the next several months.

Sasha Talcott can be reached at stalcott@globe.com.

Document BSTNGB0020041008e0a80007e

Metro/Region
HOLD BANK ACCOUNTABLE
EILEEN McNAMARA
684 words
1 September 2004
The Boston Globe
THIRD
B1
English

There was a refreshing glimpse of bipartisanship this week, and it was not the sight of a Democrat from Georgia preparing to address the Republican National Convention in Manhattan.

Senator Zell Miller's moment in the spotlight in Madison Square Garden tonight is about one man's political confusion, not about bipartisanship. What is happening in Boston, however, is the real thing, Republicans and Democrats acting together out of enlightened self-interest.

Representatives of both parties are pressuring Kenneth Lewis, chief executive officer of **Bank of America**, to explain why the third largest bank in the nation is reneging on its commitment to preserve local jobs after its recent takeover of FleetBoston Financial Corp.

The head of the North Carolina-based bank seems to have thought this was an idle question, given the lack of legal oversight by municipal and state governments of the federally regulated banking industry. But this is Boston, not Charlotte, and Lewis flew north once he realized that Bostonians know more than one way to ensure that the new bank in town agrees to be a good neighbor.

Massachusetts Treasurer Timothy P. Cahill is threatening to pull $120 million of state business, including certificates of deposit and stock holdings in the state's retirement fund, out of **Bank of America**. City Council President Michael Flaherty and Councilor Jerry McDermott are suggesting the city take its business elsewhere, too, if Lewis does not make good on pre-merger promises that Massachusetts would retain its local jobs and bank divisions. US Representative Barney Frank is vowing to propose tighter federal regulation of the banking industry when Congress reconvenes this month in light of what he calls **Bank of America**'s "arrogance, lack of honesty, and disregard for the economic needs of Massachusetts."

It is not often that Frank and Governor Mitt Romney find themselves on the same page. But officials in the Republican governor's administration are echoing the concerns of Democrats. Banking Commissioner Steven Antonakes wants Lewis to explain how **Bank of America**'s decision to move its small-business banking unit and its Latin American unit out of Massachusetts is consistent with the CEO's promise before the acquisition to maintain employment levels in the state.

Lieutenant Governor Kerry Healey canceled a planned appearance at a breakfast sponsored by the bank at the Republican convention this week, a symbolic but not insignificant gesture trivialized by those predisposed to marginalize any action by the only woman in Massachusetts elected statewide.

This bipartisan coalition should not stop with Lewis. **Bank of America** did not invade Massachusetts; Fleet invited the corporate giant to town, and the Fleet executives who have benefited from the $48 billion acquisition ought to be held just as accountable for **Bank of America**'s short-term memory lapse. That means Chad Gifford, chairman of the newly merged company, and Anne Finucane, president for New England and director of strategic issues management.

No one would argue that Lewis should ignore pressure from Wall Street to deliver on his high stakes purchase. But no one held a gun to Lewis's head to extract his promise that savings would be accomplished without a wholesale assault on jobs in Massachusetts. Would he have gotten his merger without that pledge? Probably not. That's why a man's word is supposed to be his bond. It is not reassuring to learn that almost half of the space at **Bank of America**'s Federal Street headquarters has been put out for lease.

The notion that bigger means better, that better means leaner, that leaner means profits above people is not some immutable law of nature. It is a crass, financial calculation that ignores the realities of working men and women who are the face of **Bank of America**. Profits matter, but so do tellers who will be unable to pay the rent when full-time jobs are reduced to part-time or eliminated.

Let's not pretend it's not a choice.

Eileen McNamara is a Globe columnist. She can be reached at mcnamara@globe.com.

Document BSTNGB0020040901e0910009w

factiva

Dow Jones & Reuters

Business

BYE-BYE, BIG BANK A LOOK AT SAN FRANCISCO WITHOUT BANK OF AMERICA'S HEADQUARTERS SUGGEST BOSTON'S FUTURE WITHOUT FLEETBOSTON ISN'T EASY TO PREDICT

Sasha Talcott, Globe Correspondent
1,664 words
1 February 2004
The Boston Globe
THIRD
E.1
English

SAN FRANCISCO - The tony corporate boardroom that once hosted some of California's most powerful executives is now up for rent.

The 51st-floor power suite of the **Bank of America** building, an anchor of San Francisco's skyline, stands largely empty, except for the ghosts of the bank's former chief executives, whose portraits grace its walls.

It was just five years ago that San Francisco lost its largest bank - and a key piece of the city's pride - when NationsBank of Charlotte, N.C., gobbled up BankAmerica Corp. in what was then billed as a "merger of equals." The bank's corporate headquarters headed off to Charlotte, and San Francisco was left with a landmark maroon building that bears **Bank of America**'s name but far fewer of its power brokers.

In three months, when the same **Bank of America** is scheduled to swallow FleetBoston Financial Corp., Boston's largest hometown bank will be gone. But if San Francisco's experience is any indication, the future of Boston's merger may be more complicated than its supporters, or its critics, will admit.

A month after the merger closed, San Francisco's old chief executive was gone. The "merger of equals" dissolved into an acquisition. Though the new bank actually gives more in dollars and cents to the city, it has failed to win over a vocal corps of community groups, which remain convinced that the new bank is distant and unfeeling.

"The transfer of power clearly went from San Francisco to North Carolina," said Richard Puntillo, a finance professor at the University of San Francisco. "There was a kind of coming down for us. We lost something, even though the vast majority of customers wouldn't notice any difference."

But that "lost something" remains hard to define. To some, it's about not being able to pick up the phone and call a bank representative in their city. To others, it's more about the indignity that many California community leaders have never talked things out with the company's chief executive.

"We've lost that communication link," said Mel Washington, president of the San Francisco Black Chamber of Commerce. The group used to get about $50,000 to organize workshops on access to capital and credit repair. Since the merger, however, he said the bank has been "disinterested" and has not supported the organization.

Five years after the San Francisco deal, activists across California are still furious at the bank for what they view as a string of broken promises. They decorated the walls at a recent Federal Reserve Bank meeting with posters proclaiming "We're not a colony," sang a Mexican protest song, and passed out fortune cookies with the message, "Beware of banks that speak loudly and say little."

But though anxiety levels are running high, a Globe review of **Bank of America**'s efforts in California before and after the merger shows that, by several key indicators, the bank has actually improved its performance.

The bank's charitable giving in the state increased after the merger, while its refinancing loans to blacks and Latinos went up as well. Arts groups such as the San Francisco Ballet and the Opera saw their funding from **Bank of America** remain relatively constant or increase. The bank shut some branches, but it has since opened many new ones.

Even for **Bank of America**'s loyal California customers, the San Francisco merger had some unsteady moments. When applying to refinance his Oakland home a few years ago, Darien Belanger decided to add his domestic partner to the deed.

But the newly minted banking giant processed his application in Texas and, on the 59th day of the 60-day window to close the deal, **Bank of America** called with some bad news: If Belanger wanted the loan, the bank said, he would have to bring an extra $1,800 to the closing the next day to cover additional property tax liabilities the bank had overlooked.

"They just weren't familiar with the California market," he said. "I was paying them to help me. It's their business to know about this stuff."

Like Boston, San Francisco has always regarded itself as a financial hub. When a North Carolina titan one-upped its local bank, the city sought assurances that **Bank of America** would remain committed to the community - just as Boston did during the Fleet merger.

Across the country, cities such as Los Angeles, St. Louis, and Phoenix all lost banks during the wave of mergers that engulfed the industry in the 1980s and '90s. The trend has continued more recently, as Chicago is scheduled to lose Bank One Corp., its last major bank, when it merges with J.P. Morgan Chase.

But in San Francisco, things went particularly bad. Soon after the merger, BankAmerica's former chief executive - the most powerful advocate for California in the newly combined bank - abruptly resigned, and other senior California executives followed.

That legacy has Californians feeling shortchanged, regardless of what the bank does now.

"At the beginning, it was like dating," said Darlene Mar, a member of the steering committee for the Council of Asian American Business Associations. "They sent Hugh McColl" - the combined bank's then-chief executive - "to San Francisco, and he reaffirmed his commitments. But then things started to taper off."

Before the deal had closed, she tore up her **Bank of America** credit card and shut down her bank account. Instead, she moved her money over to Wells Fargo & Co., which still has its headquarters in San Francisco.

Though much of the hard data favor the bank, naysayers have it right on one important count: small business loans under $100,000. After Charlotte became the new headquarters, the bank made far fewer of these loans in San Francisco County, according to information from the Federal Financial Institutions Examination Council.

But **Bank of America** officials dispute the notion that small business lending across the state has undergone any decline. Though the bank did very little small business lending five year ago, **Bank of America** has now become the number one small business lender in California, said Liam McGee, **Bank of America**'s president of consumer banking.

"We have dramatically deepened our involvement in matters crucial to the quality of life in California in the five years since the NationsBank merger," he said. "I'm talking particularly about housing, small business development, education, and financial literacy."

After the merger, **Bank of America**'s funding choices also attracted a mix of praise and criticism. One group, the Southeast Asian Community Center, has received more than $300,000 from **Bank of America** over the last five years - with the bulk of that money coming after the merger.

Without that money, the borrowers could never have started small businesses ranging from a metal fabricator to a janitorial service, said Victor Hsi, the center's business director.

"This is critical," he said. "These people generally don't qualify for loans. This lets them start their own business."

But for every Southeast Asian Community Center, activists say, there is another San Francisco group that cannot get **Bank of America**'s attention. The Mission Language and Vocational School, which teaches job skills

to Latino immigrants across the region, said **Bank of America** has turned down an application to fund its job-training program for Latinos, saying it is "not a funding priority."

"We just feel like they've drawn back," said Alan Fisher, executive director of the California Reinvestment Committee, a group that monitors banks' commitment to the community. "It's kind of scary for us. This was our big homegrown bank, and no one thought it was going to be anything else."

But there are several reasons to believe that Boston's experience in a merger with **Bank of America** will not parallel that of its West Coast counterpart. In a signal of its commitment to New England, **Bank of America** has appointed several top Fleet executives to the newly combined company, and Fleet's chief executive, Chad Gifford, will become chairman of the combined company after the deal.

Bank of America has promised to maintain employment levels in New England, which it plans to accomplish by relocating several key divisions to Boston. The bank recently appointed Anne Finucane of Fleet to oversee strategic planning in the merger, another sign of Fleet's power in the combined bank.

Even so, many Californians urge customers in New England to remain skeptical.

"For Boston down the road, once you become a national bank, it'll be like, `Boston? Boston who?' " said Mar of the Council of Asian American Business Associations. "Just like it's now `California? California who?' "

Sasha Talcott can be reached at stalcott@globe.com.

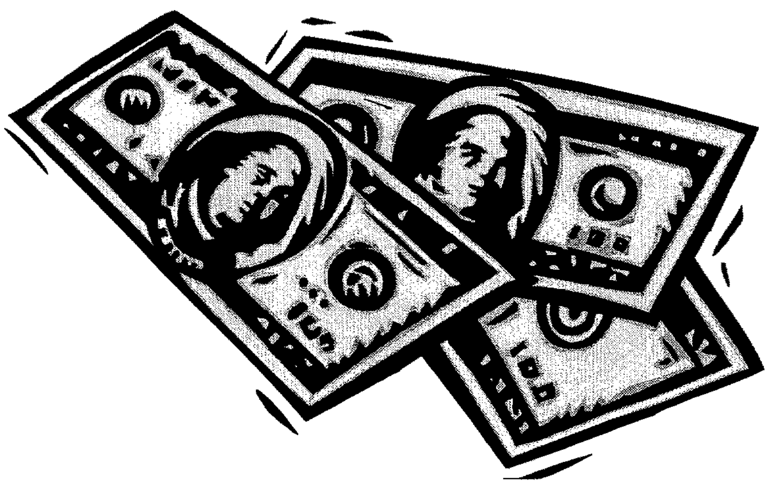
SIDEBAR: DESPITE VOCAL LOCAL COMPLAINTS, INDICATORS REFLECT A MIXED IMPACT ON THE COMMUNITY PLEASE REFER TO MICROFILM FOR CHART DATA.

Caption: 1. LENDING PLEDGE Small business owner Carol Guan was able to get started thanks to a $300,000 donation to the Southeast Asian Community Center from **Bank of America**. Some praise the bank's commitment to lending in the San Francisco area. 2. DOMINATING The San Francisco building where **Bank of America** formerly called home now rents its once-bustling corporate boardroom for mere few hundred dollars and houses far fewer employees. 3. TURNED DOWN Students Oscar Quijada (left) and Christopher Rojas at San Francisco's Mission Language and Vocational School. The program claims **Bank of America** rejected applications to fund its job training program for Latinos. / GLOBE PHOTOS / JAKUB MASUR 4. Rocky Yau in front of his store in San Francisco's Chinatown. Yau was able to open his business with help from the Southeast Asian Community Center, which received funds from the **Bank of America**. / GLOBE PHOTO / JAKUB MOSUR

Document BSTNGB0020040202e02100007

SOUTHCOAST WORKFORCE DEVELOPMENT UPDATE:

BANKING



Prepared for

GREATER NEW BEDFORD WORKFORCE INVESTMENT BOARD, INC.

By

CENTER FOR POLICY ANALYSIS

UNIVERSITY OF MASSACHUSETTS DARTMOUTH

UNIVERSITY OF MASSACHUSETTS DARTMOUTH
CENTER FOR POLICY ANALYSIS

The University of Massachusetts Dartmouth Center for Policy Analysis was established in 1985 as a multidisciplinary research unit dedicated to the creation and dissemination of knowledge that facilitates economic, social, and political development. The Center for Policy Analysis aims to enhance the economic and social well-being of citizens by providing research, information, and technical assistance to government, business, non-profit, and educational agencies. The Center for Policy Analysis does not pursue a predetermined research agenda, but is a flexible research organization responding on a timely basis to problems and issues identified by client agencies.

Correspondence and inquiries should be addressed to: Center for Policy Analysis, University of Massachusetts Dartmouth, 285 Old Westport Road, North Dartmouth, Massachusetts 02747-2300 (telephone: 508-999-8943; fax: 508-999-8374).

Senior Author: Nina Galipeau and Clyde W. Barrow

Website address: www.umassd.edu/cfpa

Economic Research Series No. 54

EXECUTIVE SUMMARY

This *SouthCoast Workforce Development Update* focuses on the banking industry, because a recent wave of mergers and acquisitions is having a significant and immediate impact on the SouthCoast workforce. The SouthCoast includes the Cities of Fall River and New Bedford and the Towns of Acushnet, Dartmouth, Fairhaven, Freetown, Lakeville, Marion, Mattapoisett, Rochester, Seekonk, Somerset, Swansea, Wareham, and Westport. More than a decade of on-going bank consolidation is having an impact on the South Coast's employment that is comparable to the decline of the fishing industry over the same period of time. Yet, there are few provisions for dealing with employment dislocation in the banking sector.

Area Employment in the Banking Industry

- Between 1993 and 2003, total South Coast employment in the banking industry dropped by about 31 percent from 2,206 to 1,523 employees:

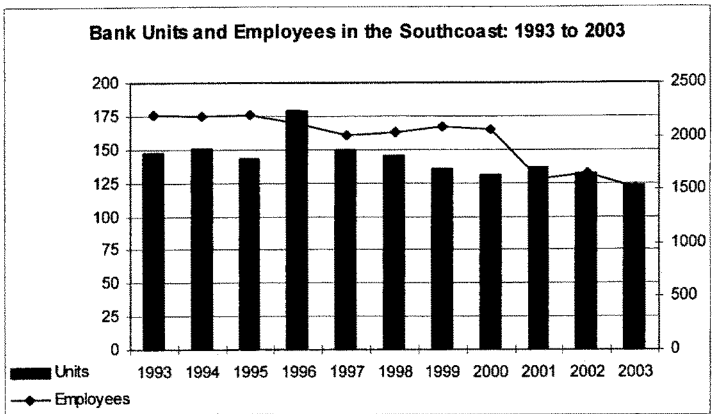
- These declines are partly the result of productivity and efficiency improvements created by the introduction of automated banking services, such as telephone banking, online banking, and automated teller machines (ATMs). Banking industry employment remained relatively stagnant from 1993 to 1996.

- However, most job losses in the banking sector are directly attributable to mergers and acquisitions over the last 10 years:

  - In 1995, Fleet Financial Corporation acquired NBB Bancorp and Shawmut National Corporation to become the largest bank in New England. As a result, the NBIS headquarters in downtown New Bedford was closed and the SouthCoast lost 179 employees between 1995 and 1997.

  - In 1997, Bank of Boston acquired BayBanks in a $2 billion merger, which resulted in the loss of twenty-nine bank units and just over 100 employees in the South Coast.

  - In 1999, Fleet Financial Corporation acquired BankBoston and Citizens Bank acquired USTrust Corporation. Between 1999 and 2001, employment in the banking sector dropped from 2,017 to 1,597 employees.



Prospective Indicators in Area Employment

There are currently three pending mergers and acquisitions that could result in a projected job loss of up to 500 South Coast employees within the next eighteen to twenty-four months. This is more than one-third (34.5%) of the South Coast's banking industry employment:

- It was announced in January of 2004 that Sovereign Bancorp will acquire Seacoast Financial Services for $1.1 billion. Sovereign Bancorp will eliminate approximately 350 employees in southeastern Massachusetts with most of the employees located in the South Coast.

- In April 2004, FleetBoston Financial merged with Bank of America (BofA) in a $47 billion acquisition. BofA will eliminate approximately 500 employees in Massachusetts with an undetermined impact on the South Coast.

- In May 2004, Webster Financial Corporation completed its acquisition of Swansea-based FirstFed America for $465 million. As of May 2004, Webster has already eliminated twenty percent of FirstFed employees with the expectation of more workforce reductions.

1.00 PURPOSE OF STUDY

The Center for Policy Analysis was retained in 2001 by the Greater New Bedford Workforce Investment Board and by the Bristol Workforce Investment Board to identify critical, emerging, and declining industries in the two Workforce Investment Areas (WIA) and to recommend actions to guide the implementation of workforce development policy in the SouthCoast Area. This *SouthCoast Workforce Development Update* focuses on the banking industry, because a recent wave of mergers and acquisitions is having a significant and immediate impact on the SouthCoast workforce.

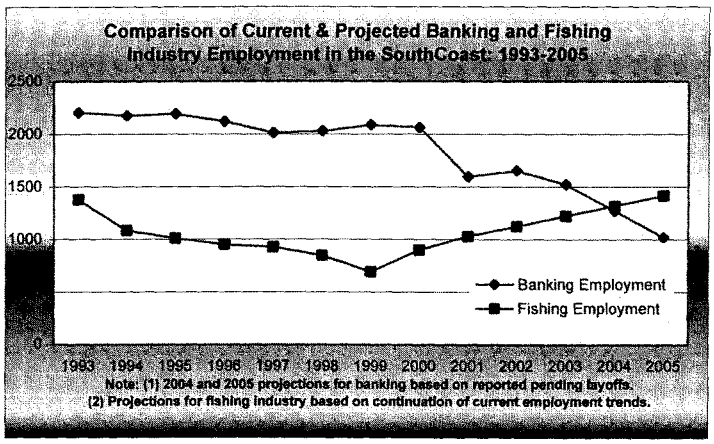
Consolidation has been one of the banking industry's most noteworthy trends since the late 1980s, when concerns about many banks' credit quality led to a wave of mergers and acquisitions (M&A) throughout the United States as strong banks took over weak or failing institutions. Bank mergers and acquisitions accelerated in the 1990s, before slowing more recently until the impact of federal deregulation initiatives stimulated a new wave of mergers and acquisitions. In November of 1999, the Gramm-Leach-Bliley Act was passed by Congress, which effectively repealed the Depression-era Glass-Steagall Act that restricted banks' ability to engage in debt and securities underwriting. The 1999 Act creates a new kind of financial holding company that is permitted to expand into a variety of business activities related to financial services, including the underwriting and selling of insurance and securities, conducting commercial and merchant banking, investing in and developing real estate, and other complementary activities.

Thus, the primary factor favoring further consolidation is competition, which has intensified pressure on banks to expand market share, improve efficiency, and offer a broader range of financial products. Consolidation can help banks fend off competition from other commercial banks and from non-bank providers of financial services. Banks contend that they become financially stronger following a merger because they can reduce the acquired bank's operating costs, particularly in intra-market deals, where the duplication of bank infrastructure is high. In fact, most straight banking acquisitions have been intra-market deals rather than mergers between players operating in different geographic territories. Combining back-office operations and closing branches in overlapping service territories can cut the combined banks' costs by 20 percent or more in most cases. Other benefits of consolidation are expanded delivery networks, geographic and product diversification, and fewer competitors in a given market. Thus, according to Standard & Poor's *Industry Surveys* "consolidation may continue over the long-term as banks move to compete more efficiently in a less regulated environment" (Momio 2003).

However, the impact of bank consolidation on employment and employees is not sufficiently addressed by state and federal workforce development policy or the Community Reinvestment Act. Published reports by bank officials indicate that as many as 500 employees, or as much as 33% of the South Coast's remaining banking sector employment, could be eliminated over the next 18 to 24 months. Despite the possibility of intra-company transfers and some expansion by smaller community banks, more than

a decade of bank consolidation is having an impact on the South Coast's employment that is comparable to the employment declines in the fishing industry over the same period of time. Yet, there are few provisions for dealing with employment dislocation in the banking sector.

Figure 1



1.10 The SouthCoast Financial Services Cluster

The Financial Services cluster includes banking, savings institutions, credit unions, insurance carriers, insurance agents, securities and commodities brokers, funds, trusts, and real estate. In the Greater New Bedford Workforce Investment Area Financial Services was identified as a critical but declining cluster that accounted for 3.2 percent of the area's total employment (2,080 jobs) in 1999. The largest employers in the cluster were banks (971) and insurance agents (390). However, total employment in the cluster decreased from 2,151 in 1992 to 2,080 in 1999 primarily due to employment declines among insurance carriers (-60.3 percent) and banks (-13.5 percent) (Center for Policy Analysis 2001a, 31).

In the Bristol Workforce Investment Area, Financial Services accounted for 3.6 percent of the area's total employment (4,749 jobs in 1999. The largest employers in the cluster were banks (1,985) and insurance agents (1,098). Total employment in the cluster decreased by 7.1 percent from 1990 to 1999. This decrease was also primarily due to employment declines among insurance carriers (-68.5 percent) and banks (-2.8 percent). Much of the decline in the insurance industry is due to consolidation and downsizing.

Banking is one of the major sectors of the SouthCoast's Financial Services cluster and many of the cluster's largest employers were in the banking sector, including Fleet

Bank, First Federal Savings Bank of America, and SeaCoast Financial Services (Compass Bank).

1.20 Banking as a Critical and Declining Employment Sector

A cluster is a group of firms in two or more industries linked together by shared customer, supplier, or other relationships. *Clusters* of competitive industries tend to concentrate geographically to take advantage of natural resources, specialized research and development facilities, local concentrations of industry-relevant labor skills, industry-specific infrastructure, inter-modal transportation networks, and other synergies attributable to business clusters.

Critical clusters are defined as those that employ 3 percent or more of the total private workforce in a designated geographic area.

An *emerging industry* could fall below the 3 percent threshold if it is showing rapid growth (e.g., from 1% to 2% of total employment over last 10 years). Emerging and critical industries are typically identified based on past and projected rates of growth in the number of business units and employment within the designated geographic area.

The term *declining industry* refers exclusively to declines in employment. The term does not necessarily provide insights into the profitability and financial health of an industry, the demand for its products or services, or the condition of individual firms within an industry. In fact, an industry can be shedding total employment, while increasing annual output, sales, and profits through organizational restructuring or technological innovations that allow firms in the industry to produce greater volumes of a good or service with fewer employees. It is also possible for individual firms to be stable or expanding within a declining industry due to higher than average productivity, superior marketing, or the capture of niche markets where they face little competition from other firms in the industry. The term also does not describe the quality of the jobs created or lost in a particular industry, since an expanding employment sector can be creating low-wage jobs with few benefits, while a declining sector could be restructuring its workforce to rely more heavily on high-wage skilled employees that achieve higher rates of productivity due to their use of technology.

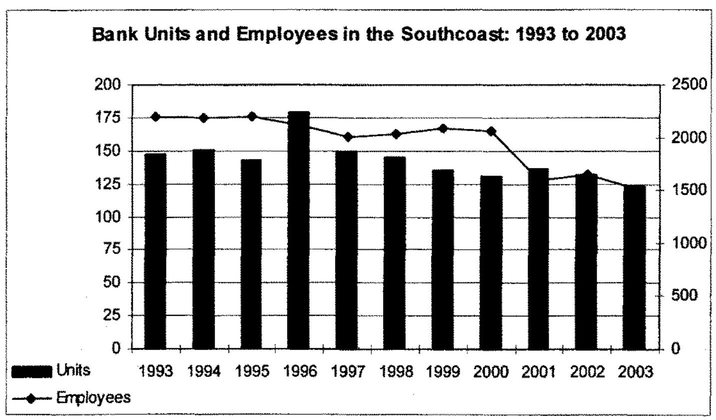
An industry may be both "critical and emerging" (i.e., important and adding employment) or it may be "critical and declining" (i.e., important and shedding employment).

The Center for Policy Analysis identified Financial Services, and particularly banking, as a "critical and declining industry" in the Greater New Bedford and Bristol Workforce Investments Areas in its 2001 economic base analyses. This designation was based on past employment trends, but included the likelihood that employment would continue to decline as a result of further consolidation and restructuring in the banking sector and the growing use of automated banking services, such as telephone banking, automated teller machines (ATMs), and online banking that reduce demand for labor.

1.30 Changes in the SouthCoast Banking Industry

The SouthCoast has been witnessing a decline in banking industry employment for the past decade along with the rest of the country. Since 2001, the banking industry has been characterized as a critical and declining industry in the Greater New Bedford and Bristol Workforce Investment Areas. Figure 2 displays the number of banking units and bank employees in the SouthCoast area from 1993 to 2003 (ES-202). The SouthCoast includes the cities/towns of Acushnet, Dartmouth, Fairhaven, Fall River, Freetown, Lakeville, Marion, Mattapoisett, New Bedford, Rochester, Seekonk, Somerset, Swansea, Wareham, and Westport. The chart does not include data for Acushnet, Freetown, and Rochester. Bank units are classified as depository credit intermediations by the North American Industry Classification System (NAICS) and it includes commercial banking, savings institutions, and credit unions. Before 2001, bank units were classified as depository institutions by the Standard Industrial Classification System (SIC), and included central reserve depository institutions, commercial banks, savings institutions, credit unions, and foreign banking agencies.

Figure 2



Between 1993 and 2003, total employment in the South Coast banking industry dropped by about 31 percent, from 2,206 to 1,523 employees, while the total number of banking establishments decreased by twenty-four units. Although the economy recovered from a recession in the early 1990's, employment in the banking industry continued its long-term decline through the rest of the decade. In February 1995, Fleet Financial Corporation, based in Providence, Rhode Island, acquired NBB Bancorp, the parent company of the New Bedford Institute for Savings (NBIS), which had operated fifty-three bank branches in the South Coast area (O'Connor 1995). At this time, Fleet did not have a strong presence in the South Coast, but the acquisition resulted in the closing of two Greater New Bedford branches (Costa-Crowell 1995). At the time, Fleet officials stated that an undetermined number of NBIS's 600 employees would be

eliminated, including the closing of the NBIS headquarters in New Bedford, MA (O'Connor 1995).

In the same year, Fleet Financial acquired Shawmut National Corporation, based in Hartford, Connecticut in a $3.7 billion deal. After the acquisition was finalized, Fleet became the largest bank in New England and the ninth-largest bank company in the United States (Pope 1995). The Fleet/Shawmut merger resulted in the elimination of 1,200 Massachusetts employees from the Shawmut and Fleet workforce and the closing of about 160 bank branches (Pope 1995). Although Shawmut had operated branches in New Bedford, Dartmouth, and Wareham, it is not known if any of these branches closed due to the merger, but either way the South Coast lost 179 bank employees between 1995 and 1997.

In an effort to compete with Fleet Financial, Bank of Boston and BayBanks initiated a $2 billion merger in 1996, which resulted in the elimination of sixty-five bank branches affecting approximately 400 employees across Massachusetts (Esposito 1997). By the end of 1997, the newly named BankBoston had eliminated a total of 2,000 employees statewide due to the consolidation of management, back office operations, and branch closures (Shook 1997). The SouthCoast lost twenty-nine banking establishments and just over 100 employees between 1996 and 1997, mainly due to the Bank of Boston/Baybanks merger. The job cuts were part of a plan to save approximately $230 million a year by 1999 in the newly merged BankBoston.

The anticipated savings at BankBoston were barely realized before Fleet Financial Corporation announced it plans in March of 1999 to takeover BankBoston in a $13 billion deal. By the end of 1999, the deal had been finalized and FleetBoston would become the nation's eighth largest bank with more than $190 billion in assets. The merger was expected to produce savings of over $700 million per year mainly by eliminating 5,000 jobs in New England by 2001 (Bartolotta 1999). At the time, bank executives estimated that the SouthCoast would lose another twenty-five bank branches due to the close proximity of Fleet and BankBoston branches in the area (Estrella 1999). Between 1999 and 2001, the SouthCoast lost seventeen bank units, a decrease of about eleven percent of total banking establishments in the area. During the same period, employment dropped by more than twenty percent from 2,017 to 1,597 employees.

At almost the same time as Fleet's acquisition of BankBoston, Citizens Bank agreed to pay $1.4 billion for the acquisition of USTrust Corp. in June of 1999. The two banks combined had approximately 7,800 employees, and announced they would cut 800 of these employees in their attempt to save $80 million a year by 2001 (Browning 1999). After the acquisition was completed, Citizens became the second-largest bank in the area, although it remained a medium-size company with $28 billion in assets with 9% of the deposits in New England (www.bos.frb.org). [1]

[1] BankBoston had about $160 billion in assets and held about 26% of New England deposits by 2000 (www.bos.frb.org).

For the past two years, after a drop in bank units and employment, the industry has been relatively stable. There were only a few small mergers between 1999 and 2003 that occurred mainly between small to medium-size banks, which had only a small impact on the number of banking units and employment in the South Coast. However, since January of 2004, as part of a nationwide trend in the banking industry, SouthCoast employment in the banking sector is again being affected by three of the largest bank mergers in the state, all of which have been taking place within the past several months.

Between February 2003 and January 2004, twelve Massachusetts banks have been acquired, and since then even larger national corporations have acquired three of the region's largest bank holding companies (Mason 2004). These acquisitions include FleetBoston Financial, the leading banking provider in the Northeast, Seacoast Financial Services, the parent company of Compass Bank and one of the SouthCoast's largest financial employers, and FirstFed America Bancorp, Inc., which is based in Swansea. The acquisitions have been part of a banking industry trend to reduce the demand for labor while simultaneously expanding services to new regions through acquisitions. With at least three large acquisitions in process, it is likely that the South Coast's banking industry will once again eliminate significant numbers of employees.

2.00 FLEETBOSTON – BANK OF AMERICA

The recent impacts on the SouthCoast began with the $47 billion acquisition of FleetBoston Financial by Bank of America (BofA) in April 2004. Bank of America, which is based in Charlotte, North Carolina, has expanded throughout the South, Midwest, West, and now into the Northeast. Following the acquisition, FleetBoston and BofA will become the nation's second largest commercial bank after Citigroup, Inc. (Domis 2003). BofA will hold 9.8% of domestic deposits, barely falling short of the federal government cap which only allows banks to hold up to 10% of domestic deposits, unless the deposits are grown naturally (Domis 2003). In addition, BofA is projected to serve 30% of the businesses operating in its 29 state franchise, and will have the largest share of large corporate relationships, including 95% of the Fortune 500 companies (www.bankofamerica.com).

Following a 30% cost reduction standard with most bank mergers, the Fleet merger is planned to reduce costs by $1.1 billion by 2005.[2] According to the *Boston Globe*, industry analysts point out that job cuts are unavoidable when reducing costs of this magnitude. Even with a smaller cost reduction, job losses are inevitable due to the number of Fleet jobs that will overlap with BofA, primarily top managerial positions and back office workers (i.e. accountants, human resources, technical personnel) (Fitzgerald 2003).

Over the last decade, the introduction and expansion of automated banking services such as ATMs, telephone banking, and online banking have further reduced the demand for labor in the banking industry. The larger bank corporations tend to rely more

[2] This is $1.6 billion before taxes or approximately 25% of Fleet's costs if measured alone.

heavily on these types of services; thus, the acquisition of the smaller, more personalized companies has further reduced the need for employees. BofA describes on its website that "[after the merger is complete] it will feature the most extensive and convenient delivery network ... more than 16,500 ATMs, award-winning online and electronic bill pay services and 24-hour telephone banking" (www.bankofamerica.com).

As a result of the merger, BofA will eliminate approximately 12,500 employees nationwide within the next two years, including at least 500 employees from Massachusetts[3], according to a report released in May for the Massachusett's Department of Labor and Workforce Development (Talcott 2004a). The report also revealed that jobs in human resources, marketing, legal, and technical professions will take the deepest cuts because these positions overlap with positions at BofA headquarters in North Carolina. As for laid-off Fleet employees, they are being offered a severance package which may include up to one year's salary for those earning over $75k, and up to 39 weeks worth of income for those making below that amount, all of which is determined by the number of years employed (Talcott 2004b). However, because BofA has no branches in the Northeast, it is assumed that most branch workers in the South Coast will not be affected by the job cuts taking place.[4]

Besides Fleet workers, there are a number of law firms, advertising agencies, and other Massachusetts businesses that fear losing one of their biggest clients in FleetFinancial. As part of the merger, BofA executives claim that part of reducing costs will include renegotiating vendor contracts and reducing marketing costs. Therefore, reducing business with New England vendors is inevitable, and has already taken place in some respects. Ultimately, in an attempt to reduce costs, the mergers inevitably affect employment in other sectors of the region's economy (Talcott 2004c).

Following BofA's publication of projected job losses, the corporation began negotiating deals with state organizations to meet its community-lending requirement. The Community Reinvestment Act requires regulators to consider a bank's lending record when it wants to buy another bank, therefore, the bank must show that is has given a sufficient amount of credit to low to moderate income communities they serve (Nicklaus 2004). This requirement to foster community development gives banks such as BofA an incentive to negotiate with activists during an acquisition, and as a result, BofA has already pledged $750 billion for community development efforts, including affordable housing loans (Talcott 2004d). While this is a record amount for such programs, many opponents of the acquisition, including U.S. Representative Barney Frank (D-Newton), believe the pledge is too vague and may still not mitigate the harm done to communities within the state (Talcott 2004d).

---

[3] Not including the number of layoffs.

[4] Layoffs in the SouthCoast are unlikely to follow this particular merger, since any potential intra-market efficiencies (i.e., branch closings) have already been achieved by Fleet over the last decade through previous mergers and acquisitions (i.e., NBIS, Bank of Boston, and Baybanks). Consequently, any layoffs and office closings due to the BofA/Fleet merger will likely occur elsewhere in the country.

While banks must reach a certain requirement in making small business loans and affordable housing loans when merging or acquiring a new bank, the Community Reinvestment Act makes no provisions to require funding for job training or career transition services, which is becoming a growing necessity in this critical and declining industry. While the community receives assistance by area banks, none of the funding is required to serve employment issues that may arise from the bank itself.

3.00 WEBSTER FINANCIAL – FIRSTFED AMERICA

In May 2004, the Connecticut based Webster Financial Corporation completed its acquisition of FirstFed America Bancorp, Inc., based in Swansea, Massachusetts, and the holding company for First Federal Savings Bank, in a 465 million dollar bid. With $17 billion in assets, Webster has grown to become the nation's 46th largest bank, and will become the largest independent bank based in southern New England (phx.corporate-ir.net). The acquisition will bring nineteen Webster branches to southeastern Massachusetts, and seven to Rhode Island.

Although Webster executives claim they plan to keep all of First Federal's branches open, they could not specify how many jobs would be cut in the SouthCoast. As of May, 150 out of the 750 FirstFed employees had lost their jobs, leaving only fifty employees at FirstFed's headquarters in Swansea (Ortiz 2004a). According to *The Standard Times*, employees involved with administration and management are taking the brunt of the job cuts "as bank executives aggressively eliminate redundant administrative and operational functions" (Ortiz 2004a).

4.00 SEACOAST FINANCIAL – SOVEREIGN BANCORP

While the acquisition of FirstFed has left many Southcoast residents without employment, perhaps the biggest impact on the region will be the acquisition of Seacoast Financial Services by Sovereign Bancorp, which was announced in January 2004. Seacoast Financial, the holding company for Compass Bank and Nantucket Bank, is based in New Bedford, Massachusetts, and has been described as the "cornerstone of downtown New Bedford's revitalization" (Ortiz 2004b). Seacoast was the largest independent bank holding company in Massachusetts, serving southeastern Massachusetts through forty-seven Compass Bank branches, and the largest financial service employer in the Southcoast region[5] (ir.thomsonfn.com). Seacoast Financial is in the latter stages of acquiring Abington Savings Bank, which, as a result, will also be acquired by Sovereign.

With the $1.1 billion merger, Sovereign will pick up sixty-seven branches to add to the 177 branches that operate in Massachusetts, making it the third largest local bank (Patriot Ledger Staff 2004). Sovereign will close down twenty branches across the state, and by the end of 2004, at least twelve Compass branches, including those in Fall River, New Bedford, Seekonk, and Westport, which overlaps with Sovereign branches, will be

[5] Approximately 832 employees (Ortiz 2004c).

eliminated (Adams May 15, 2004). Similar to the Fleet acquisition and many other mergers, Sovereign plans to reduce costs by about thirty percent.

As part of the cost savings, about 350 employees will be laid off in southeastern Massachusetts, which is more than thirty percent of the jobs at Compass Bank and Abington Savings Bank combined (Ortiz 2004c). Coupled with the projected 150 lay-offs due to the acquisition of FirstFed, the SouthCoast could lose more than 500 jobs within the next year, not including the jobs lost as a result of the FleetBoston acquisition. Nearly half of the job cuts will be focused on the Compass Bank headquarters in New Bedford[6] (Patriot Ledger 2004). Similar to the other bank mergers, most of the positions being eliminated are back office jobs such as human resources, marketing, and clerical positions (Ortiz 2004c).

About 120 employees at Compass Bank's New Bedford headquarters, and an undetermined amount of employees at the Weymouth branch, will be able to compete for eighty-two new positions at Boston or Rhode Island locations. But if employees opt not to apply, they will be denied a severance package.

Many elected officials, consumer advocates, and banking experts are deeply concerned that the acquisition of Seacoast Financial will devastate New Bedford and Southeastern Massachusetts. The Community Reinvestment Act, which may prohibit banks from buying other banks if it has a negative impact on the community, may have prompted Sovereign to its $1.2 million commitment in New Bedford's Downtown Loan Pool, which will benefit small businesses (Ortiz 2004c). In addition, Sovereign has committed to spend $600,000 on charitable contributions each year and is already a leading lender in the statewide affordable mortgage program. Thus, whether Sovereign's community reinvestment in New Bedford will adequately mitigate the economic effects caused by the acquisition, primarily the 350-person lay-off, is an open question.

5.00 CONCLUSION

The Community Reinvestment Act was passed in 1977 at a time of comparative stability in the banking sector and it was designed to encourage federally insured banks and thrifts to reinvest in their host communities. The Act's authors never envisioned the repeal of the Glass-Steagall Act, the new era of bank deregulation, or the possibility of national and international financial holding companies that operate across state and national borders. It's authors could not foresee the far-reaching impact of automated banking services. Moreover, the Community Reinvestment Act's main objective was to insure that banks met the *credit* needs of the entire community, including low- and moderate income neighborhoods and small businesses, but it was never designed to address employment dislocations or the community disruption generated by bank consolidation and improvements in banking efficiency.

[6] Sovereign will cut 165 employees and retain 87 at the New Bedford headquarters.

[This page left blank intentionally]

SOURCES CONSULTED

Adams, Steve. 2004. "Bank Merger Leads to Closings." *The Patriot Ledger*, May 15, p.36.

Andrade, Stephen, Clyde Barrow, and David Borges. 2001. *Developing Strategies for Recruiting, Retaining, and Training the Workforce of Tomorrow: A Blueprint for Action.* Boston: University of Massachusetts Donahue Institute.

Bank of America. "Bank of America and FleetBoston Financial to Create Nation's Premier Financial Services Company," in Press Releases Archive. October 27, 2003. http://www.bankofamerica.com

Barrow, Clyde W. and David R. Borges. 2001. *Greater New Bedford Economic Base Analysis: Critical and Emerging Industries and Workforce Development Targets.* North Dartmouth, Massachusetts: Center for Policy Analysis.

Bartolotta, Joe. 1999. "Fleet Goal: All Systems Are Go – Conversion a Challenge." *Boston Herald,* November 1, p.036.

Browning, Lynnley. 1999. "$1.4b Citizens-UST Deal Recasts Financial Scene." *Boston Globe*, June 22, p.A1.

Costa-Crowell, Carol Lee. 1995. "Fleet To Buy Out Shawmut; 3,000 Jobs Could Be Lost." *The Standard-Times*, February 21, p.A1.

Domis, Olaf de Senerpont. 2003. "Banks' Megadeal On a Roll." *The Deal*, October. http://www.thedeal.com

Esposito, Andi. 1997. "Seven Bank Branches Target For Closure." *Worcester Telegram and Gazette,* February 8, p.B6.

Estrella, John. 1999. "Two Faces of Bank Merger." *The Standard-Times*, March 16, p. A1. http://www.s-t.com

Executive Office of the President, Office of Management & Budget. 1997. *North American Industry Classification System.* Washington, D.C.: Government Printing Office.

Federal Reserve Bank of Boston. *Profile of New England.* http://bos.frb.org

Fitzgerald, Jay. 2003. "Financials Will Dictate Job Losses Inside Fleet." *Boston Herald,* October 29, p.037.

Mason, Edward. 2004. "As Mergers Thin Ranks, New Mass. Banks Arise." *Boston Business Journal,* April 19. http://www.bizjournals.com

Massachusetts Division of Unemployment Assistance. 2004. "Employment and Wages (ES-202)." http://lmi2.detma.org/lmi/lmi_es_a.asp

Momios, Evan. 2003. "Industry Surveys: Banking." New York: Standard & Poor's. http://www.netadvantage.standardpoor.com

Nicklaus, David. 2004. "Advocates For Poor Use Law as Hammer Over Bank Mergers." *St. Louis Post,* January 11, p.G1.

O'Connor, Patricia. 1995. "NBIS-Fleet Deal Gets Final Approvals." *The Standard-Times*, January 24, p.B7.

Ortiz, David J. 2004a. "Losses Mount From Bank Mergers." *The Standard-Times,* April 18, p. D1. http://www.s-t.com

Ortiz, David J. 2004b. "Frank to Fight Compass Purchase." *The Standard-Times,* January 28, p.A1. http://www.s-t.com

Ortiz, David J. 2004c. "Sovereign to Cut 350 Bank Jobs." *The Standard-Times,* April 16, p. A1. http://www.s-t.com

Pope, Chris. 1995. "Shawmut, Fleet Banks to Merge//Deal Will Cost 3,000 Jobs." *Worcester Telegram and Gazette,* February 22, p.A1.

Shook, David. 1997. "Overhaul at Bank May Trim Some Jobs." *The Patriot Ledger,* October 23, p.12.

Sovereign Bancorp, Inc. 2004. "Sovereign to Acquire Seacoast Financial Services Corporation," in *Press Releases*, January 26. http://ir.thomasonfn.com

Talcott, Sasha. 2004a. "Ex-Fleet Executive Snowden Joins Ranks of High-Profile Departures." *Boston Globe,* May 29, p.D1.

Talcott, Sasha. 2004b. "Merger to Claim 500 Jobs Bank of America Says Losses Will Hit Mass. Over 2 Years." *Boston Globe,* May 14, p.D1.

Talcott, Sasha. 2004c. "Hill Holliday Cuts About 20 Jobs in Recent Weeks." *Boston Globe,* June 4, p.D3.

Talcott, Sasha. 2004d. "Housing Activist Set to Get Funds From Bank." *Boston Globe,* January 10, p.E1.

The Patriot Ledger Staff. 2004. "Bank Workers Promised Severance Pay." *The Patriot Ledger,* April 19, p.6.

Webster Financial Corporation. 2004. "Webster Completes FIRSTFED Acquisition; Becomes Largest Independent Bank Based in Southern New England," in *Webster – Investor Relations*, May 17. http://phx.corporate-ir.net

Inner City Press / Community on the Move & Fair Finance Watch

Tel: 718-716-3540 Fax: 718-716-3161 Web: InnerCityPress.org

Written Testimony to the House of Representatives Committee on Financial Services

Submitted December 10, 2004 in advance of the December 14, 2004 field hearing

On behalf of the non-profit organization Inner City Press / Community on the Move and the Fair Finance Watch (ICP), this submission addresses the impact on communities and consumers of two completed mergers and one merger proposal that has not been approved, and on which the Committee can and should still have an effect: the proposal by Toronto Dominion to acquire a controlling 51% stake in Banknorth, for over three billion dollars. On November 15, ICP submitted to the Federal Reserve a 15-page comment opposing Toronto Dominion's application, based on lending disparities, on managerial issues at Toronto Dominion including enabling of Enron and lack of environmental standards, and on Banknorth's funding of high-cost pawnshops, check cashers and other predatory fringe finance. *See, e.g.*, <www.boston.com/business/articles/2004/11/15/group_challenges_banknorth_td_bank_merger>, and Toronto Star of Nov. 21, 2004, Pg. C1, "Merger Snags," by Stuart Laidlaw:

> "'The impact on the consumer is at least as important as the price paid to shareholders,' [the] executive director of Inner City Press, said in an interview from his office in the Bronx. In a filing with the Federal Reserve Bank of New York, which must approve the deal, Lee looks at the bank's lending rates in several markets. In Hartford, Conn., for instance, only 2 per cent of its loans were to blacks and Hispanics, while the average among all banks was 6.8 per cent. He called the problem 'systemic.' Under the U.S. Community Reinvestment Act, banks are expected to fully serve disadvantaged neighborhoods. Lee's group uses the act to get banks to make commitments to boost their loans to the poor and racial minorities whenever those banks are hoping to get a deal approved by the Fed. 'Pretty well the only way it is enforced is through the denial of deals,' he said."

As relates to this hearing's meta-merger policy question, if the only enforcement mechanism of the CRA is regulatory agencies' denial or conditioning of banks' expansion applications, then the CRA is not being (sufficiently) enforced. For example, during the JP Morgan Chase - Bank One proceeding, ICP submitted to the Federal

Reserve a series of Uniform Commercial Code filings showing the two banks financing payday lenders such as First Cash Financial Services, a top-ten pawnshop chain with 130 storefronts in 11 states; Illinois Payday Loans, Inc., Discount Payday Loans of Colorado; Mister Payday of Kentucky, Inc., and First American Cash Advance, a top-ten payday lender with 330 storefronts in 11 states -- a company which has been extensively criticized for its high-cost lending, particularly to members of the military. For that, see the Washington Post of December 29, 2003, "Military Says Payday Loans Promote Fiscal Irresponsibility, Hurt Troop Morale."

While the FRB asked JP Morgan Chase and Bank One questions about their funding of payday lenders, car title lenders and other questionable bottom-tier financiers, the FRB did not impose any prohibition on such standardless practices. The Federal Reserve leaves the onus on the community and consumers groups themselves. This can bear some results -- simply as to ICP this year, consider that SunTrust Banks, in response to ICP's comments, committed to cease funding payday and car title lenders. See, e.g., "NCF, SunTrust Ditch Payday Lenders: Answer Activists' Challenge Ahead of Bank Merger," Memphis Commercial Appeal, July 28, 2004; "Bank Shuns Payday Lenders: SunTrust Halts Loans to Fast-Cash Industry," Orlando Sentinel, July 28, 2004, Pg. C1, and "Saying No to Exploitation -- Our Position: SunTrust Was Right to End Business with Payday and Car-Title Lenders," Orlando Sentinel, July 30, 2004, Pg. A18.

But other large banks, not only JP Morgan Chase but also Bank of America, Wachovia and Wells Fargo (and pertinently also Banknorth, and certain other banks with pending merger applications, such as Laredo National Bank and Fifth Third Bank) continue such funding. *See, e.g.*, Bloomberg News of Nov. 23, 2004, "JPMorgan, Banks Back Lenders Luring Poor With 780 Percent Rates," at http://quote.bloomberg.com/apps/news?pid=nifea&&sid=ayYDo5tpjTY8, and see <www.tennessean.com/business/archives/04/11/62129411.shtml?Element_ID=62129411>.

The FRB has also fallen into a pattern of granting banks' requests for confidential treatment under the FOIA for their lists of payday lenders and others fringe financiers

they partner with, even though these relationships are "already public" in UCC filings. This has required a tangent from consumer protection into FOIA litigation, such as ICP is conducting in the wake of the FRB's Wachovia-SouthTrust approval. *See, e.g.*, "Community Group: Fed Must Reconsider Wachovia-SouthTrust," Dow Jones, October 25, 2004.

As the Committee can see from the FRB's Orders, while the FRB recites and gives weight to banks' unilateral lending pledges, the FRB subsequently refuses to enforce or even monitor such pledges. As a meta-merger policy recommendation, ICP suggests that the BHC Act be amended, at 12 USC 1848, to explicitly provide for judicial review of FRB approval orders on consumer and community lending issues. In the interim, most practically, inquiry should be made into the FRB's anti-consumer processing of the pending TD-Banknorth application, as well as other pending mergers including BBVA-Laredo National and applications by Wells Fargo and Citigroup in Texas, and Fifth Third in Florida.

Regarding the first of these (which was named at the time this hearing was scheduled, see CBS MarketWatch of October 7, 2004, Home Mortgage Disclosure Act (HMDA) data reported for 2003 show that Banknorth disproportionately excludes and denies African Americans and, particularly, Latinos. In the Albany, New York MSA for refinance loans in 2003, Banknorth denied Latinos 4.31 times more frequently than whites, and denied the conventional home purchase loan applications of Latinos 4.83 times more frequently then whites. For refinance loans here in the Boston MSA in 2003, Banknorth denied Latinos 3.17 times more frequently than whites, while using the methodology above, only 1.3% of Banknorth's refinance loans were to Latinos, lower than the aggregate's 2.2%. In the Boston MSA, Banknorth denied the conventional home purchase loan applications of African Americans 11.8 times more frequently then whites. In the Lowell, Massachusetts MSA, Banknorth denied the conventional home purchase loan applications of African Americans 8.92 times more frequently then whites, and denied Latinos' applications 10.8 times more frequently than whites.

In the New Haven, Connecticut MSA for refinance loans in 2003, Banknorth denied Latinos 6.25 times more frequently than whites, while using the methodology above, only 1.3% of Banknorth's refinance loans were to Latinos, lower than the aggregate's 3.2%. In New Haven, Banknorth denied the conventional home purchase loan applications of African Americans 3.76 times more frequently then whites. Banknorth's disparities are income- (and geography-) based as well. In the Portland, Maine MSA in 2003, Banknorth denied conventional home purchase loan applications from low-income census tracts 3.5 times more frequently than those from upper income census tracts (higher than the aggregates' disparity of 2.09); Banknorth denied applications from moderate income census tracts 6.54 times more frequently than those from upper income census tracts (higher than the aggregates' disparity of 2.83). In the Glen Falls, New York MSA in 2003, Banknorth denied applications from moderate income census tracts 3.73 times more frequently than those from middle income census tracts (much higher than the aggregates' disparity of 1.23).

There are other adverse issues at Toronto Dominion, including managerial issues: there's Toronto Dominion's enabling of Enron's fraud (*see, e.g.*, the Houston Chronicle of December 03, 2003, "THE FALL OF ENRON: Banks added to shareholder suit;" note that evidence submitted to the Senate Permanent Subcommittee on Investigations' hearings identified Toronto Dominion as actively engaged in illegitimate trades with Enron to disguise loans received by the company, allowing Enron to hide this debt from credit rating agencies and investors, inflating profits substantially.

In this proposed transaction, it is widely predicted that TD will subsequently seek full 100% control. When it did this in connection with Waterhouse, it squeezed the remaining shareholders, *see, e.g.*, Toronto Star of March 12, 2003, regarding

> "shareholder lawsuits challenging the buyout of the bank's TD Waterhouse Group Inc. brokerage unit. TD Bank, Canada's second-biggest by assets, agreed in October, 2001, to add $22.5 million to its $409 million offer for the 12 per cent of the online brokerage that it didn't already own. Investors sued in Delaware Chancery Court to block the initial $9-per-share bid, contending it undervalued the stock. The bank, which sold the public stake in TD Waterhouse for $1.01 billion in 1999 when online brokerage shares were soaring, boosted its offer by 50 cents per share to resolve the

suits. The company has said it's prepared to sell or close discount brokerage units in Europe, Asia and Australia if losses continue through this year."

In fact, ICP's comments note, there's been unusual trading in connection with this Toronto Dominion - Banknorth proposal. *See, e.g.*, Financial Times of September 28, 2004, regarding "10 anomalies in Banknorth's trading on August 16, 10 days before the deal with Toronto-Dominion became public. Four stemmed from high volumes and six from an unusually large number of transactions."

As to Wells Fargo, ICP's ongoing review of Uniform Commercial Code (UCC) filings from Texas, Nevada, Illinois, California and elsewhere has found Wells funding and enabling for example

TITLE LOANS EXPRESS, INC. of 4295 SAN FELIPE, HOUSTON, TEXAS 77027, financed by WELLS FARGO BANK TEXAS, NATIONAL ASSOCIATION

HOUSTON AREA PAWN SYSTEMS, INC., financed by WELLS FARGO BANK TEXAS, NATIONAL ASSOCIATION

EZ PAWN HOLDINGS, INC., of 1901 CAPITAL PARKWAY, AUSTIN, TX 78746 (financed by Wells Fargo Bank, N.A., as recently as April 13, 2004, according to Uniform Commercial Code filings);

PAYDAY LOAN MANAGEMENT, INC. of 1901 CAPITAL PARKWAY, AUSTIN, TX 78746, financed by WELLS FARGO BANK TEXAS, NATIONAL ASSOCIATION

EXPRESS TITLE & PAYDAY LOANS, INC. of 1131 WARREN LANE, VERNON HILLS, ILLINOIS 60061, financed by WELLS FARGO BANK, N.A., according to an Illinois Uniform Commercial Code filing

ADVANCE AMERICA CASH ADVANCE CENTERS, headquartered as 135 NORTH CHURCH STREET, SPARTANBURG, SC 29306, multiply financed by Wells Fargo, including in 2004;

PAYDAY INC of 5021 INDIAN SCHOOL RD NE, ALBUQUERQUE, NM 87110

PAYDAY PLUS of 425 HILL AVENUE, GRAFTON, ND 58237, financed by WELLS FARGO BANK NORTH DAKOTA, NATIONAL ASSOC

AUTO PAWN, INC. of 7534 HICKMAN RD, DES MOINES, IA 50322, financed by WELLS FARGO BANK IOWA, N.A., according to Iowa UCC records;

PAYDAY LOANS III, L.L.C. in Idado, financed by WELLS FARGO BANK, N.A.

PAYDAY EXPRESS, of 4302 SOUTH 24TH STREET, OMAHA, NE 68107, financed by WELLS FARGO BANK NEBRASKA, NATIONAL ASSOCIATION

1 STOP CHECK CASHING $ PAYDAY & TITLE LOANS, LLC of 10555 E FIRESTONE BLVD, NORWALK, CA 90650, financed by WELLS FARGO BANK, NATIONAL ASSOCIATION, according to a May 6, 2004, Arizona UCC filing

MAC DIANE'S PAWN CENTER in Michigan;

and, ARMED FORCES LOANS INC. of 3824 S JONES STE G, LAS VEGAS, NV 89103, regarding which, see " Lending Scams Target Military," at http://usmilitary.about.com/cs/generalpay/a/loanscam.htm

In response, Wells Fargo has told the FRB, in its last expansion commented-on by ICP, that its subprime subsidiary on Puerto Rico

> "Island Finance does not have a specialized customer service department or a toll-free telephone number for complaints. Customers who have complaints contact the store handling their account. If the store is unable to resolve the complaint the complaint if referred to the district manager. If the district manager is unable to resolve the complaint it is referred [to] the district manager's supervisor." (Wells Fargo's submission to the FRB dated August 11, 2003, at 11).

That Wells' Puerto Rico-based Island Finance has even less consumer protection safeguards that Wells Fargo Financial's overall operations is significant -- and, ICP contends, is violative of the Fair Housing Act and Equal Credit Opportunity Act, given the demographics of Island Finance's headquarters and its lending operations. But the FRB has done nothing, including in connection with Wells' currently pending application to acquire yet another bank, in Texas.

To endeavor to address the meta-merger issues, here is a review of service-cuts and branch closures by Bank of America and its predecessor(s), particularly in connection with NationsBank's acquisitions of Boatmen's Bancshares, Barnett Banks, and then (then San Francisco-based) Bank of America itself.

In August 1996, NationsBank announced a plan to acquire Boatmen's Bancshares and its subsidiaries, including Sunwest Banks, the largest bank franchise in New Mexico.

Among with New Mexico and Texas groups, ICP commented to the FRB, *see, e.g.*, Wall St. J., October 10, 1996, at A8: Inner City Press Challenges Merger of Banking Concerns. NationsBank responded that its acquisition of Boatmen's would result in few, if any, branch closings, and opposed ICP's hearing request, emphasizing that it was an "out-of-market" merger -- just as Bank of America's application in this Fleet case states.

The FRB conditionally approved that merger, requiring NationsBank *inter alia* to divest a mere two branches in the El Paso-Dona Ana County TX-NM market, and to report on its branch closings quarterly to the Federal Reserve Bank of Richmond (the "FRBR"). ICP and NMA sought judicial review of the FRB's approval (New Mexico Alliance and Inner City Press/Community on the Move v. Board of Governors of the Fed. Reserve Sys. and NationsBank Corporation, No. 98-1049); and *see, e.g.*, Albuquerque Tribune of January 2, 1997, Groups Fight Bank Merger.

Significantly, after acquiring Boatmen's and Sunwest, NationsBank closed more than eight branches in New Mexico. Note that **none** of those branch closings were even arguably attributable to any overlap between NationsBank and Sunwest. *See, e.g.*, Sunwest to Close Eight Locations, Albuquerque Journal, May 21, 1998, at D4: "Sunwest Bank will close four branch office in Albuquerque and four others throughout the state -- changes brought about because of the bank's merger with NationsBank of Charlotte, N.C.... NationsBank bought out Sunwest's parent company, Boatmen's Bancshares of St. Louis, in July. Shortly after that, a team of analysts was sent to Albuquerque to review Sunwest's operations, [NationsBank spokeswoman Betsy] Hall said. The review was conducted to see if any of Sunwest's operations here could be streamlined, she said."

See also, Albuquerque Journal of May 2, 1997, at A1: "Since arriving in New Mexico in January, NationsBank, headquartered in Charlotte, N.C., has -- Closed branch drive-up teller windows to non-Sunwest customers trying to cash checks drawn on Sunwest accounts [and --] Assigned values to callers on the company's customer service telephone bank, whereby customers with bigger accounts are handled more quickly than those with smaller accounts."

While NationsBank downplayed the effects of it branch closings, the manager of the Espanola (N.M.) Main Street Program stated that downtown Espanola "lost some of its bustle when NationsBank, which purchased Sunwest Bank, closed the Sunwest Bank branch in the Main Street area." L. Pugh, Espanola Wants to Restore Main Street, Albuquerque Journal, February 23, 1998, at 1.

After New Mexico State Senator Roman Maes in late July 1997 publicly asked the state government to stop doing business with, and to withdraw deposits from, NationsBank, after NationsBank moved to lay off fully 25% of Sunwest's employees, NationsBank's response was essentially that such a governmental decision would be counter-productive -- NationsBank would just lay off more people. *See*, Anti-Bank Movement Picks Up Steam, Albuquerque Journal, July 29, 1997, at 1: NationsBank spokeswoman Betsy Hall stating that the State Senate "is exacerbating the problem, because if we have customers leave, we will have fewer associates."

This arrogance in New Mexico is predictive for lower income communities and states, and of one of the dangers posed by this unprecedented mega-bank. The problem? "[T]he state [New Mexico] doesn't have much business to take away from NationsBank. And NationsBank's New Mexico operation represents a drop in the bucket for a company that earned $2.5 billion last year." Customers Leave After Job Cuts, Tulsa World, August 15, 1997, at E2.

The New Mexico experience makes clear that Bank of America respects neither consumers nor elected officials in more far-flung states. As Bank of America gets larger, particular communities and even states cannot get any accountability from it -- the impact on the mega-bank's bottom line of even a withdraw of all state business from it would be minimal. Significantly, even after NationsBank's August 7, 1997, "Day One" announcement in New Mexico, elected officials such as the Mayor of Albuquerque continued to press for withdrawal of state and city funds from NationsBank. *See, e.g.,* D. Vukelich, City to Pull Cash From NationsBank, Albuquerque Tribune, August 18, 1997,

at A1: "The mayor's announcement came minutes after he had returned from a celebration at the bank to mark its changeover from the Sunwest Bank name to the NationsBank name... The financial impact on NationsBank will be small. NationsBank operates in sixteen states and the District of Columbia and has assets of $240 billion." Seeking NationsBank's response to these local protests, a reported "called NationsBank in Albuquerque and received a call back... from Dallas in the person of Pam McQuitty, head of Southwest public relations. She said she wasn't in a position to comment...". Albuquerque Journal, August 21, 1997. *See also* Albuquerque Journal of August 28, 1997, at D4, Local NationsBank Chief Quits, and Albuquerque Tribune of December 29, 1997: "'When you call them, you're not dealing with someone in NationsBank in Albuquerque, but someone in Pennsylvania or Buffalo or somewhere else...' [T]he NationsBank takeover was different. The loss of local branches and jobs around New Mexico loomed large enough that state legislators condemned NationsBank...".

In late 1997, NationsBank acquired Barnett Banks in Florida. ICP and a Florida-based civil rights group commented to the FRB on both antitrust and fair lending / CRA (including branch closing) concerns, and stated that public meetings should be held in Florida. *See, e.g.*, Activists Protest Barnett Deal, Business Journal-Jacksonville, October 31, 1997. NationsBank opposed ICP's hearing request, emphasizing that "only" 200 comments opposing the proposal had been received by the FRB. The FRB denied the public meeting requests, and approved the merger, without even attaching the branch closing report condition it had imposed on NationsBank's "out of market" acquisition of Boatmen's and Sunwest. *See generally*, Barnett-Florida Deal Gives Idea of What Louisiana Can Expect in Bank Merger, Gannett News Service, January 30, 1998. Thereafter, NationsBank announced the closing of fully 205 bank branches in Florida. NationsBank had downplayed this aspect of its takeover of Barnett (*see, e.g.*, Area Branches Won't Close, Port St. Lucie (FL) News, December 10, 1997, at B6, *and see* Bank Rebuts Merger Concerns, Sun-Sentinel, November 26, 1997), but, during a February 18, 1998, visit to Florida, NationsBank's CEO disclosed to a reporter that "a little more than 200" branches faced the prospect of being eliminated.

The adverse effects of NationsBank's acquisitions have by no means been limited to New Mexico. *See, e.g.,* Kansas City Star, July 3, 1997, at B2: "NationsBank is in the midst of selling, closing or moving 18 banking locations in Kansas and Missouri... NationsBank explained that it is pulling out of some small towns in Kansas...". St. Louis Post-Dispatch, April 12, 1997: "Losers will include people who get free checking by keeping $1,500 in a Boatmen's savings account. The required amount will rise to $5,000... [NationsBank is] closing six stand-alone offices... NationsBank charges $7 a month for a personal checking account, up from $6 for Boatmen's." And see, "Redlined: L.A.'s big banks promised millions to help abate the city's slums," New Times Los Angeles, November 25, 1999; "Bank lending questioned: El Paso bankers contend they seek out businesses for loans," El Paso Times, October 31, 1999; and Virginia Business of September 1, 2001, "Do Banks Mergers Mean Worse Service?" which starts: "Bert Dodson Jr. watched helplessly as the fees he pays to the new Bank of America increased 10 percent after its $57.7 billion merger with Nations Bank Corp. three years ago. The Lynchburg-based exterminator could have saved $20,000 of the $45,000 he was charged by BoA for deposits, a credit line and employee paycheck cashing if he took his business to another bank."

Soon after the New Mexico branch closing announcement (see above, and note again that none of those branch closings were even arguably attributable to any overlap between NationsBank and Sunwest), other adverse effects of acquisition by NationsBank became clear. *See, e.g.,* NationsBank to Raise Bank Service Fees, Albuquerque Tribune, June 24, 1997, at B5: "NationsBank will raise fees on several former Sunwest accounts once the banks' merger is complete... Also Monday, the bank said its decision not to continue the old Sunwest policy of having policy-making boards in New Mexico community where it has banks should ultimately mean better service for customers." Fort Lauderdale Sun-Sentinel, February 19, 1998, at 1D. Even after its CEO's disclosure, NationsBank sought to keep information about the massive closures away from the affected public ("it won't yet tell the public which offices will be shut, spokesman Jerri Franz said Tuesday." Orlando Sentinel Tribune, April 1, 1998).

Bank of America's layoffs, following its acquisition of Fleet, are already of record -- but they are part of the historical pattern sketched above. In final programmatic conclusion, considering the disposition of the above-referenced New Mexico Alliance and Inner City Press/Community on the Move v. Board of Governors of the Fed. Reserve Sys. and NationsBank Corporation, No. 98-1049 -- dismissed for lack of standing under 12 USC 1848 -- it is imperative that this section of the BHC Act (and equivalent sections of the Bank Merger Act, etc.) be amended to explicitly provide for judicial review of FRB orders, on consumer and community lending grounds. Thank you.

O